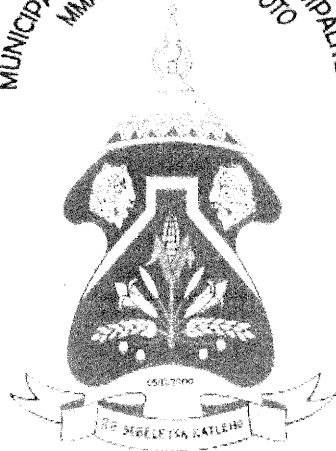


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MMASEPALA WA SETSOTO



Setsoto Local Municipality

Department of the Office of the Municipal Manager

IDP/PMS Division

Ficksburg

Free State

South Africa

Setsoto Local Municipality
Draft Annual Report 2011/2012

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Draft Annual Report 2011/2012

**Cllr Jakobo T B
Mayor**

I have the honour of submitting the Annual Report 2011/2012 of the Municipality for the period 1 July 2011 to 30 June 2012.

To the best of my knowledge, contents of the report are consistent with the disclosure principles contained in the guide for the preparation of the Annual Reports issued by National Treasury.

This report seeks to portray the municipality's activities during the financial year under review and is based on sound underlying departmental information and management systems.

In presenting this report we acknowledge progress made during the 2011/2012 financial year as well as the challenges and opportunities that lie ahead.



**STR Ramakarane
Municipal Manager**



Setsoto Local Municipality

Department of the Office of the Municipal Manager

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Foreword - The Mayor Councillor Jakobo T B

I am privileged to have the opportunity as the Mayor of Setsoto Local Municipality to introduce the Annual Report for the 2011/2012 financial year.

The 2011/2012 financial year was an eventful year with the first encounter of service delivery protests, but it was also a productive year in which a great deal of progress was made. The memorandum that was submitted by the community members made the municipality to realise that there was a lack of proper control and monitoring with regard to the implementation of the service delivery projects.

During this period, services were improved and a number of demanding challenges were overcome. However, this municipality is aware of the fact that challenges still remain and strives to continuously improve on service delivery. With the implementation of the reviewed Integrated Development Plan, council has made tremendous leaps towards achieving its objectives in all four key performance areas, namely:

1. Infrastructure and Basic Services
2. Local Economic Development
3. Institutional Development
4. Social Development

The approved (revised) budget of the municipality is an amount of R 314 million which is funded out of own income (e.g. services charges) and operating grants and subsidies (excluding capital grants). Own income contributed an average of 48% towards the total approved operating budget.

Operating expenditure (revised) is an amount of R 314 million. Total capital budget (revised) is an amount of R 106 million which is funded as follows:

Source of Funding	Budget
MIG	62 963 000
EPWP	10 642 000
Internal generated funds	405 000
Roll Over	28 062 000
RBIG	4 000 000
Total	106 072 000

Table 1: Municipal Grants

For the period under review the municipality has received a total of R234 million from grants which represents actual grants received and the amount capitalised during the year under review

The municipality has spent a total of R272 million which represent an average expenditure rate of 86% against the total approved adjustments budget (operating). The capital expenditure that has been overspent for the period under review is nil.

The municipality has disclosed an amount of R14 million which represent unspent conditional grants for the year under review. The operating surplus is an amount of R104 million.

The municipality disclosed capital assets from the district municipality that were implemented in the prior years. This figure however does not impact on the current financial position of the municipality as it was the capitalisation of assets.

The following table shows the financial position of the municipality for the past year:

Income			
Source	Original Budget	Adjustments Budget	Actual Performance
Grants	147 070 000	152 115 000	234 546 666
Tariffs	122 169 000	123 334 000	111 678 585
Other	38 041 000	39 444 000	31 042 648
Total	307 280 000	314 893 000	377 267 899
Expenditure			
Vote			
Salaries	(97 231 000)	(98 278 000)	(98 460 879)
Repairs and Maintenance	(121 509 000)	(121 615 000)	(15 230 392)
Other	(88 538 000)	(94 969 000)	(158 735 464)
Total	(307 278 000)	(314 862 000)	(272 426 735)
Surplus/deficit	2 000	31 000	104 841 164

Table 2: Financial Position

Although good progress has been made during the 2011/2012 financial year, this does not mean that there is not more to be done. Key challenges for the 2012/2013 year ahead, which were also experienced during the 2010/2011, include:

- a) Improving service delivery provision, e.g.
 - provision of water and mitigating water loss
 - refurbishment and completion of sanitation
- b) Addressing prior years audit queries to attain unqualified audit opinion and finally clean audit
- c) Improving on housing delivery
- d) Improving organisational efficiency including filling of critical vacant posts
- e) Improving on Revenue and Financial Viability
- f) All other challenges, which are detailed in the MTAS

The new financial year will be equally, if not more, challenging and I look forward to working with you all to achieve a better life for all.

I would like to thank members of Council, the Executive Committee Members, National and Provincial Sector Departments, Municipal Manager and Directors, all other municipal officials and the public for their support during a very challenging year.

**COUNCILLOR JAKOBO T B
MAYOR**

Overview – Municipal Manager Mr Ramakarane STR

The municipality's annual financial statements were prepared and submitted to the Auditor-General by the deadline of 31 August 2012. The annual performance report in terms of section 46 of the Local Government: Systems Act (No 32 of 2000) has been submitted on the 10 September 2012 due to the finalisation of the inclusion of financial information into the annual performance report, to the Auditor-General, for audit.

In achieving these things, we have honoured the faith that Setsoto citizenry has placed in the municipality. The municipal council adopted the IDP 2011/2012 and the Budget 2011/2012 to address municipal strategic priorities in a practical and meaningful manner. These strategic priorities are aligned to the Local Government Five Year Strategic Agenda, Municipal Turnaround Strategy and Outcome 9's seven outputs.

This allowed us to refocus our energies and to further align ourselves with Municipal Service Delivery and Budget Implementation Plan 2011/2012. In undertaking our work, and as part of the vigorous expenditure reprioritisation, we were able to further give effect to municipal strategic priorities. What is important is that in implementing the above measures the municipality was able to spend the MIG rollover of R 28 million of the 2010/2011 financial year.

The report covers the period 01 July 2011 to 30 June 2012. The period tells a post crisis recovery emanating from the community protests, loss of life which, though still somewhat fragile, is beginning to strengthen, paving the way for a sustainable service provision. With the support systems from National and Provincial sector departments, our ability and capability to provide sustainable services to communities is enhanced and gradually improving.

As part of our work during the reporting period, we continued to respond to issues raised by the communities during their protest march in April 2011 as well as the challenges that were raised by the Auditor General in the Audit Report 2010/2011, with a particular emphasis on repeat queries of the prior years. With government having placed job creation at the heart of policy formulation, we facilitated the creation of many jobs through the EPWP grant and aiming more job creation through the CWP initiatives.

The Supply Chain Management Policy of the municipality will be reviewed to deal with issues of collusive bidding or bid-rigging and to include functionality as a criterion for evaluating the status of recommended bidders on the database of restricted suppliers and Register for Tender Defaulters.

As an institution, the municipality continued to flourish and evolve with changes internally and externally. In the Municipal Turnaround Strategy, CoGTA raised concerns over the non-filling of critical posts. The good news is, as we came close to the end of the financial year we had filled three of the five critical posts and envisaging to fill the remaining within the first quarter of the new financial year. To keep the institution functional, a realignment of the structure needs to be completed in the first quarter of the new financial year.

The financial position of the institution remains a worrying factor, and the greatest risk remains the inability of the institution to collect all monies due to it. Much effort needs to be implored in order to recoup all revenue due to the municipality, including arrears. All expenditure on capital and operational is being contained in a strict manner.

The municipality performance for revenue collection stayed almost the same as 65% for 2010/2011 and 60% for 2011/2012. Council is aware that the municipality's financial viability is still crucial for sustainable service delivery and fulfilment of our constitutional mandates hence our continuous focus on our collections and vigorous application of credit control policy and

indigent subsidy policy. All debt older than ninety days will in future be handed over to our recently appointed external service providers for collection.

Having seconded by CoGTA to the municipality and having assumed my role as the Acting Municipal Manager on the 01 November 2011 and appointed as the Municipal Manager on the 01 April 2012, I wish to thank the previous Municipal Manager, Mthembu Bafana, the Senior Managers in the municipality, the Service Delivery Facilitators deployed by National and Provincial Government in the municipality, for the leadership they demonstrated during their tenure in the municipality. The achievements during the period under review were with them at the tiller of this steady ship.

Finally, I wish to thank the Speaker, the Mayor and Members of the Executive Committee, Council Members, management and the entire municipal staff, for the profoundly warm welcome which I have come to enjoy in my new role in the organisation.

STR RAMAKARANE
MUNICIPAL MANAGER

Chapter 1

Introduction and Overview

Chapter 1: Introduction and Municipal Overview

1.1 Municipal Overview

The Setsoto Local Municipality was established in terms of Section 14 of the Local Government: Municipal Structures Act, Act No 117 of 1998) and was published in Provincial Gazette No 184 dated 28 September 2000. The new Local Municipality is a category B Municipality with a collective executive system combined with a ward participatory system as contemplated in Section 3(b) of the Determination of Types of Municipality Act, 2000 (Act No 1 of 2000).

1.1.1 Vision and Mission

Focusing on the identified needs, development issues and priorities, the common aspirations and local identity of all concerned parties which gives a form of a picture of the "**preferred future**" a statement that describes how the future will look if the organisation achieves its ultimate aims and is reflected in the following shared vision statement:

"A unified, viable and progressive municipality"

Mission

A statement of the overall purpose of the municipality. It describes **what** municipality, for **whom** the municipality do it and the **benefit** and is reflected in the following shared mission statement.

"To enhance the quality of life in Setsoto by serving the needs and aspiration of all people through a responsible , economic, efficient, sustainable, accountable and developmental system of local government"

Strategic Thrusts

Deriving from the vision statement above the municipality developed the following strategic thrust with the accompanying pillars

Vision		
Developmental Thrusts		
Unification	Viability	Progressiveness
Pillars	Pillars	Pillars
Social Cohesion	Financial Viability	Formal and Informal Economy
Youth and Women Empowerment	Good Governance	Investment
Self-Reliance	Increased Revenue Base	Customer Care
Education	Assets Management	Marketing
Moral Regeneration	Ward Based Payment Incentive	Income Enhancement Strategy
Strong Public Participation		
Promotion of CBO's and NGO's to work with relevant Departments		

Table 3: Strategic Thrusts

Core Values

The municipality is committed to deliver services within the framework of Batho Pele principles as outlined below:

(a) Courtesy and 'People First'

Residents should be treated with courtesy and consideration at all times.

(b) Consultation

Residents should be consulted about service levels and quality, whenever possible.

(c) Service standards

Residents must be made aware of what to expect in terms of level of quality service.

(d) Access

Residents should have equal access to services to which they are entitled.

(e) Information

Residents must receive full and accurate information about their services.

(f) Openness and transparency

Residents should be informed about government departments, operations, budgets and management structures.

(g) Redress

Residents are entitled to apology, explanation and remedial action if the promised standard of service is not delivered.

(h) Value for money

Public services should be provided economically

1.1.2 Demographic Information

Setsotho is situated in the eastern Free State within the district boundaries of the Thabo Mofutsanyana District Municipality. The local municipality area measures 5 948.35 km² in extent and comprises four urban areas namely Ficksburg/Megheleng, Senekal/Matwabeng, Marquard/Moemaneng and Clocolan/Hlohlolwane, as well as their surrounding rural areas.

A) Municipal Geographic Information

Area and Size of the Municipal Area

Area	Number of Erven and farms	Size (Km ²)	% Area
Ficksburg	1 679	73.18	1.23%
Megheleng	11 578		
Caledon Park	500		
Sub-Total	13 757		
Clocolan	763	21.39	0.36%
Hlohlolwane	4 548		
Sub-Total	5 311		
Marquard	584		
Moemaneng	3 557	19.73	0.33%
Sub-Total	4 141		
Senekal	1 090		
Matwabeng	6 377		
Sub-Total	7 467	37.07	0.62
Rural	2 913		
Sub-Total	2 913	5 796.98	97.46
Grand-Total	33 089	5 948.35	100.00

Table 4: Area and Size of the Municipality

Wards

The municipality is currently structured into the following 18 Wards

Ward	Area
1	Marquard/Moemaneng
2	
3	
4	Senekal/Matwabeng
5	
6	
7	
8	Clocolan/Hlohlolwane
9	
10	Ficksburg/Megheleng
11	Clocolan/Hlohlolwane
12	Ficksburg/Megheleng
13	
14	
15	
16	
17	
18	

Table 5: Municipal Wards

B) Population

The size of the population within the area of Setsotho is estimated at approximately 123 194 people, as indicated in the table below. The figure is calculated on the basis of census 2001 incorporating annual growth based on the average annual growth rate of the Free State province.

C) Households

Area	Households	Population
Ficksburg	1 438	4 314
Megheleng	11 816	45 155
Caledon Park	214	814
Sub-Total	13 468	50 283
Senekal	1 090	3 270
Matwabeng	6 377	24 872
Sub-Total	7 467	28 142
Marquard	584	1 694
Moemaneng	3 557	13 875
Sub-Total	4 141	15 569
Clocolan	763	2 218
Hlohlolwane	3 999	15 599
Sub-Total	4 762	17 817
Rural/Farms	2 913	11 383

Sub-Total	2 913	11 383
Grand-Total	32 748	123 194

Table 6: Households and Population

D) Key Economic Activities

Gross Geographic Product Sector	Contribution per Sector
Agriculture	179 082
Mining	111
Manufacturing	44 450
Electricity / Water	7 929
Construction	2 769
Trade	117 394
Transport	22 848
Finance	118 939
Community	6 574
General Government	98 870
Other Producers	15 276
Total	614 242

Table 7: Key Economic Activities

1.1.3 Socio Economic Information

A) Socio Economic Growth

The socio-economic information for the municipality is as follows:

Housing Backlog	Unemployment Rate	Households with No Income	People older than 24 years illiterate	HIV/AIDS Prevalence	Urban/Rural Household Split
	%	%	%	%	%
	32%	37.12%	14.84%	30%	70%:30%

Table 8: Socio Economic Information

B) Population by Gender

Gender	2010/2011	2011/2012
Males	57 041	57 041
Females	66 154	66 154

Table 9: Population by Gender

C) Population by Gender/Age

Age	2010/2011	2011/2012
Female 0-4	8 400	8 400
Males 0-4	3 600	3 600
Females 5-14	19 250	19 250
Males 5-14	8 250	8 250
Females 15-34	31 500	31 500
Males 15-34	13 500	13 500
Females 35-64	22 536	22 536
Males 35-64	9 658	9 658
Females 65 and older	4 550	4 550
Males 65 and older	1 950	1 950

Table 10: Population by Age

D) Population by Race

Persons	2001	1996
African	114 975	99 013
Coloured	1 103	990
Indian	646	361
White	6 471	9 111
Total Population	123 194	109 475
Urban	74 188	49 006
Rural		

Table 11: Population by Race

4.1.4 Municipal Challenges

Challenges	Actions to Address
Water Shortage	Development and Implementation of the Water Demand and Water Conservation Plan
Old and Dilapidated Infrastructure	Development of Master Plan and Infrastructure Maintenance Plan
Old and Dilapidated Fleet	Development and Implementation of Fleet Management Plan
Revenue Enhancement	Appointment of external Collection Agency to recoup all outstanding arrear amounts
Audit opinion	Addressing all outstanding repeat queries
Municipal capacity	Review and approval of the organisational structure to address the current challenges

Table 12: Municipal Challenges

Chapter 2: Governance

Governance is the act of governing. It relates to decisions that define expectations, grant power, or verify performance. It consists of either a separate process or part of management or leadership processes. These processes and systems are typically administered by a government. In the case of a business or of a non-profit organisation, governance relates to consistent management, cohesive policies, guidance, processes and decision-rights for a given area of responsibility. For example, managing at a corporate level might involve evolving policies on privacy, on internal investment, and on the use of data.

To distinguish the term governance from government; "governance" is what a "government" does. It might be a geo-political government (nation-state), a corporate government (business entity), a socio-political government (tribe, family etc.), or any number of different kinds of government, but governance is the physical exercise of management power and policy, while government is the instrument (usually collective) that does it.

As a process, governance may operate in an organization of any size: from a single human being to all of humanity; and it may function for any purpose, good or evil, for profit or not. A reasonable or rational purpose of governance might aim to assure, (sometimes on behalf of others) that an organization produces a worthwhile pattern of good results while avoiding an undesirable pattern of bad circumstances.

Perhaps the moral and natural purpose of governance consists of assuring, on behalf of those governed, a worthy pattern of good while avoiding an undesirable pattern of bad. The ideal purpose, obviously, would assure a perfect pattern of good with no bad. A government comprises a set of inter-related positions that govern and that use or exercise power, particularly coercive power.

2.1 National Key Performance Indicators- Good Governance and public Participation

The following table indicates the municipality's performance in terms of National Key Performance Indicator required in terms of the Local Government: Municipal Planning and Performance Management Regulation 7146 Of 2001 and section 43 of the Municipal Systems Act 32 of 2000. This key performance indicator is linked to the National Key Performance Area – Good Governance and Public Participation

Key Performance Area and Indicators	Municipal Achievement	
	2010/2011	2011/2012
The percentage of the municipality's capital budget actually spent on capital projects identified for a particular financial year in terms of the municipality's integrated development plan	70%	73%

Table 13: Key Performance Area and Indicators

2.2 Performance Highlights – Good Governance and Public Participation

Highlight	Description
Radio Broadcasting	Have a fixed slot on Setsoto FM and Naledi FM
Communication Unit	Beefed up the Manager legal and Communications with the appointment of Communications Officer
Administrative Skills	Employees in different levels were enrolled in learnerships, internships and development programmes
Community Involvement	Establishment and induction of all wards

Table 14: Performance Highlights-Good Governance and Public Participation

2.3 Challenges – Good Governance and Public Participation

Description	Action to Address
Community Participation	Develop a Community Participation Strategy
IDP Steering Committee	Mobilise Council and officials to actively participate
Alignment	Sector Departments active involvement

Table 15: Challenges-Good Governance and Public Participation

2.4 Governance Structure

2.4.1 Political Governance Structure

The municipal council consists of 35 council members, majority of which belong to the ANC. The municipal Council is made up of the following political parties:

A) Council

Categorisation of councillors within their specific political parties and wards

Party Name	Number of Delegates	
AFRICAN NATIONAL CONGRESS (ANC)		26
Name	Position	Representation
Mohlomi M P	Speaker	Proportional
Jakobo T B	Mayor	Ward 8
Mothibeli Mercy Moselantja	Ordinary	Ward 1
Mohapi Lisbet Dieketseng	Ordinary	Ward 2
Mthimkulu L Mamoteng	Member of the Executive Committee	Ward 3
Mokhuoane Krog Sexton	Ordinary	Ward 4
Motsei D Matlakala	Ordinary	Ward 5
Selasi William Motsamai	Ordinary	Ward 6
Modiri Paul Lehlaku	Ordinary	Ward 7
Nakasi Celestine Mojabeng	Ordinary	Ward 9
Koalane Elias Komane	Member of the Executive Committee	Ward 11
Lithebe Moeletsi	Member of the Executive Committee	Ward 12
Thamoe P Motsamai	Ordinary	Ward 13
Makae Elias Thabang	Member of the Executive Committee	Ward 14
Makhalanyane George Tieho	Ordinary	Ward 15
Mohal Rose Vunga	Ordinary	Ward 16
Kere Francis Lefa	Ordinary	Ward 17
Mavaleiso Isaac Phakalitha	Ordinary	Ward 18
Maduna S Mbothoma	Ordinary	Proportional
Semahla Hilda mookho	Ordinary	Proportional
Maphiso M Mapuleng	Ordinary	Proportional
Muso Marianna Tshepiso	Ordinary	Proportional
Tsoto Johannes Thabiso	Ordinary	Proportional
Malebo Dorothy Matsiliso	Ordinary	Proportional
Mahlangu Alina Matsiliso	Member of the Executive Committee	Proportional
Fuso Selby Sebata	Ordinary	Proportional
CONGRESS OF THE PEOPLE (COPE)		2
Raboroko Joyce Mantwa	Ordinary	Proportional
Mohase Vincent Teboho	Ordinary	Proportional
DEMOCRATIC ALLIANCE (DA)		6
Bath Raymond Henry	Ordinary	Ward 10
Strydom Evert Phillip	Member of the Executive committee	Proportional
Setai J Lithebe	Ordinary	
Marwick Peter Clive	Ordinary	Proportional
Du Toit Johannes Benjamin	Ordinary	Proportional
Lubbe Martins Cornelius	Ordinary	Proportional
FREEDOM FRONT (FF+)		1
Bestler Catharina Aletta	Ordinary	Proportional

Table 16: Councillors

Council meetings attendance for the 2011/2012 financial year

Meeting dates	Number of minutes submitted	Percentage council meetings Attendance	Percentage Apologies for non-attendance
04/08/2011	1	94.28%	5.72%
27/09/2011	1	97.14%	2.86%
06/10/2011	1	94.28%	5.72%
27/10/2011	1	94.28%	5.72%
02/12/2011	1	71.42%	28.58%
29/12/2011	1	71.42%	28.58%
25/01/2012	1	88.57%	11.43%
20/03/2012	1	77.14%	22.86%
30/03/2012	1	82.85%	17.15%
30/05/2012	1	85.75%	14.25%

Table 17: Council Meetings

B) Executive Committee

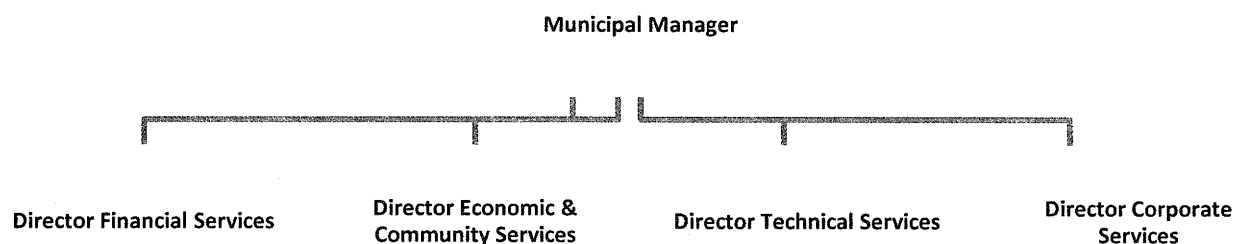
The Mayor, assisted by the members of the Executive Committee, heads the executive arm of the municipality.

Name of Member	Capacity
Councillor Jakobo T B	Mayor
Councillor Motsei M	Infrastructure Committee- Chairperson
Councillor Makae T E	Community Services Committee- Chairperson
Councillor Mthimkulu M	Urban Planning and Housing Committee- Chairperson
Councillor Koalane K	Finance Committee- Chairperson
Councillor Strydom P	Social Development Committee- Chairperson
Mahlangu A	Administration and Human Resources Committee- Chairperson

Table 18: Executive Committee Members

2.4.2 Administrative Governance Structure

The Municipal Manager is the Chief Accounting Officer of the Municipality. He is the head of the administration, and primarily has to serve as chief custodian of service delivery and implementation of political priorities. He is assisted by his direct reports, which constitutes the Management Team, whose structure is outlined below.



Management Structure

Title	Name	Position	Performance Agreements signed	
			Yes	No
Mr.	Ramakarane STR	Municipal Manager	Yes	
Mr.	Masejane T	Director Corporate Services	Yes	
Mr.	Nthedi M	Director Economic and Community Services	Yes	
Mr.	Mocheke	Acting Director Technical Services	Secondi	
Mr.	Van Tonder N	Acting Director Financial Services	No	
Mr.	Erasmus J	Service Development Facilitator	Secondi	
Mr.	Spangenberg D	Financial Advisor-MFMA	Secondi	
Support				
Me	Mihailescu S	Manager Administration and Support	Fulltime	
Me	Lebeko S	Chief Audit Executive		
Mr.	Makhele M S	Manager IDP		

Table 19: Management Structure

2.5 Public Accountability

Section 106 of the Municipal Systems Act refers specifically to the development of a culture of community participation within municipalities. It states that a municipality must develop a culture of municipal governance that compliments a formal representative government with a system of participatory governance. For this purpose it must encourage and create conditions for the local community to participate in the affairs of the community. Such participation is required in terms of:

- ✓ The preparation, implementation and review of the IDP;
- ✓ Establishment, implementation and review of the performance management system;
- ✓ Monitoring and review of the performance, including the outcomes and impact of such performance; and preparation of municipal budget.

2.5.1 Ward Committees

The ward committee function resorts in under the Office of the Speaker. Due to capacity constraints, it was not possible to keep sufficient records during the year under review and the information below is the records of available information.

2.5.2 Functionality of Ward Committees

The purpose of the ward committees is to:

- Get better participation from the community to inform council decisions;
- Make sure that there is more effective communication between the council and the community; and
- Assist the ward councillor with consultation and report-backs to community.

Ward committees should be elected by the community they serve. A ward committee may not have more than ten (10) members and women should be presented. The ward councillor serves on the ward committee and act as the chairperson. Ward committees have no formal powers; they advise the ward councillor who makes specific submissions directly to the council. These committees play a very important role in the development and annual revision of the integrated development plan of the municipality.

2.6 Corporate Governance

Corporate governance is set of processes, practices, policies, laws and stakeholders affecting the way an institution is directed, administered or controlled, corporate governance also includes the relationships among the many stakeholders involved and the goals for which the institution is governed.

2.6.1 Anti-Corruption and Anti-Fraud

Municipal Systems Act, section 83(c) refers to the implementation of effective bidding to minimise the possibility of fraud and corruption and the Municipal Finance Management Act, section 112(1) (m)(i) identify supply chain measures to be enforced to combat fraud and corruption, favouritism and unfair and irregular practices. Section 115(1) of Municipal Finance Management Act states that the accounting officer must take steps to ensure mechanisms and separation of duties in supply chain management system to minimise the likelihood of corruption and fraud.

A) Developed Strategies

Name of Strategy	Developed Yes/No	Reviewed
Fraud Prevention Strategy/Plan adopted as a policy of council	Yes	No

Table 20: Developed Strategies

B) Implementation of Strategies

Strategy	Key Risk Areas	Key measures to curb corruption and fraud
Fraud Prevention Policy	Supply chain management	Roll out of Anti-Fraud and corruption policy to the internal stakeholders through presentation
Ethics Awareness programme	Possible loss of income at traffic due to inactive follow up on traffic violations	Roll out of Anti-Fraud and Corruption Policy to the external stakeholders through outreach programme
Outreach programme on Fighting fraud and Corruption	Lack of awareness of fraud amongst staff	Investigation of fraud and corruption cases
Whistle-Blowing Policy	Possible misuse of policy to disclose sensitive information	Monitoring recommendations with regards to disciplinary, criminal and recovery actions. Effective delegation systems

Table 21: Implementation Strategies

2.6.2 Audit Committee and Performance Audit Committee

Section 166(2) of Municipal Finance Management Act states that an audit committee is an independent advisory body which must-

(a) Advise the municipal council, the political office-bearers, the accounting officer and the management staff of the municipality, on matters relating to-

- Internal financial controls;
- Risk management;
- Performance management; and
- Effective governance

Section 14(3) (a) of the regulations requires that the performance committee of a municipality must meet at least twice during each financial year. However, additional special meetings of the performance audit committee may be called for by any member of the committee, where sufficient justification exists in terms of section 14(3) (b) of the Regulations.

The Council resolved that it will have one committee dealing with both audit and performance audit.

A) Functions of the Audit and Performance Audit Committee

As council has resolved that the both the audit and performance audit will be handled by a single committee, the Audit and the Performance Audit Committee has the following roles with regards to performance management:

- To advise council on the functionality of performance management systems
- To advise council whether the PMS complies with the Act.
- To advise council on the extent to which the municipality's performance measures are reliable in measuring performance.
- To advise council on the effectiveness of the financial administrative system in terms of systems auditing as well as making recommendations with regard to perceived shortcomings.
- To ensure effective functioning of the Internal Audit and IDP/PMS Units.
- To advise council on the standard of service pertaining to Internal Audit and IDP/PMS functions.
- To advise council on all matters related to compliance and effective governance.
- To review the annual financial statements to provide council with an authoritative and credible view of the financial position of the municipality, its efficiency and its overall level of compliance with MFMA, the annual DoRA and other applicable legislation.
- Respond to council on any issues raised by the Auditor-general in the audit report.
- Carry out such investigations into the financial affairs of the municipality as council may request.
- To review quarterly reports submitted to it by the internal audit and the IDP/PMS.
- To evaluate audit reports pertaining to financial, administrative and technical systems
- To evaluate the compliance to existing policies and relevant legislation.
- To evaluate audited financial statements and reports with regard to the procurement of item and services.
- The compilation of reports to council, at least twice during a financial year.
- To review the performance management system and make recommendations in this regard to council.
- To assess whether the performance indicators are sufficient.
- To determine possible reasons for discrepancies between performance and targets.
- To identify major risks to which council is exposed and determine the extent to which risks have been minimised.
- Investigating cases of fraud, misbehaviour and conflict of interest involving employees
- To focus on and review changes in accounting policies.
- Investigate any matter it deems necessary for the performance of its duties and the exercise of its powers.
- Review the plans of the Internal Audit function and in doing so; ensure that the plan addresses the high-risk areas and ensure that adequate resources are available.
- Review audit results and action plans implemented by management.
- Provide support to the Internal Audit and IDP/PMS function.
- Ensure that no restrictions or limitation are placed on the Internal Audit and IDP/PMS divisions.
- Evaluate the activities of the internal Audit and IDP/PMS function in terms of their roles as prescribed by legislation.

B) Members of the Audit and Performance Audit Committee

Member Name	Capacity	Meeting Dates
Tshake M P	Chairperson	30 August 2011
Makhale K T	Member	21 October 2011
Moletsane D S		24 January 2012
Tau L W		20 March 2012
		15 June 2012
		29 June 2012

Table 22: Members of the audit and Performance Audit Committee

Chapter 2

Governance

2.6.4 Internal Auditing

Section 165(2) (a), (b)(iv) of the municipal finance Management Act requires that:

The internal audit of the municipality must-

- (a) prepare a risk based audit plan and an internal audit programme for each financial year; and
- (b) advise the accounting officer and report to the audit committee on the implementation on the internal audit plan and matters relating to:
- (c) risk and risk management.

The municipality has established a full capacity internal audit unit

Risk Register and Three-Year Strategic Plan

Approved

Annual Risk Based Audit Plan

Approved

Internal Audit coverage plan for the period 2011/2012

Audit Activity	Hours	Timing	
Revenue			832
Receipts (Including all cash point)	160	1 st and 3 rd Quarter	
Refunds (consumer deposits)	72	2 nd and 4 th Quarter	
Bank Reconciliations	120	1 st and 3 rd Quarter	
Revenue generating units e.g. hiring of halls and stadiums	160	1 st and 3 rd Quarter	
Hand written receipts	160	1 st and 3 rd Quarter	
Traffic	160	1 st and 3 rd Quarter	
Expenditure: Supply Chain Management			480
Contracts relating to tender awarded	160	1 st and 3 rd Quarter	
Expenditure including procurement policy	240	1 st and 3 rd Quarter	
Petty cash	80	1 st and 3 rd Quarter	
Human Resources: HR Administration			752
Personnel administration	80	2 nd and 4 th Quarter	
Personnel appointments	112	1 st and 3 rd Quarter	
Attendance register	200	1 st and 3 rd Quarter	
Leave	160	1 st and 3 rd Quarter	
Employee development (Training)	120	2 nd and 3 rd Quarter	
Dismissals; retirement and resignation	80	1 st and 3 rd Quarter	
Human Resources-Payroll			862
Overtime	160	1 st and 3 rd Quarter	
Temporary workers	80	1 st and 3 rd Quarter	
Payments to councillors	160	2 nd and 3 rd Quarter	
Payments of salaries (including deductions)	210	1 st and 3 rd Quarter	
Subsistence and travelling allowance	140	2 nd and 4 th Quarter	
Acting Allowance	112	2 nd and 4 th Quarter	
Assets			544
Movable Assets	160	2 nd and 4 th Quarter	
Immovable assets-Land	80	1 st and 3 rd Quarter	
Fleet management control	112	2 nd and 4 th Quarter	
Face value documents	80	2 nd and 4 th Quarter	
Inventories (stores)	112	1 st and 3 rd Quarter	
Financial Controls			1290
Approval of tariffs e.g. electricity and clearance certificate	112	1 st and 3 rd Quarter	
Application of services	160	1 st and 3 rd Quarter	
Meter readings; billing and sending of accounts	210	1 st and 3 rd Quarter	
Valuation roll	112	2 nd and 4 th Quarter	
Journals; debit and Credit notes	160	2 nd and 4 th Quarter	
Credit Control-long overdue accounts	368	1 st and 3 rd Quarter	
Credit Control: Indigents	168	1 st and 3 rd Quarter	
Housing			384
Allocation/reallocation of sites	128	1 st and 3 rd Quarter	
Contracts (council houses, miscellaneous, land and camps)	256	1 st and 3 rd Quarter	
Performance Management System			640
Auditing Performance Information (IDP, EPAS and SDBIP)	240	Half yearly	
Appraisal for section 56	160	Half yearly	
Performance Audit (3Es)	200	Quarterly	
Handling of complaints related to service rendered	112	1 st and 3 rd Quarter	
Duration of the requisition from request to actual order	128	1 st and 3 rd Quarter	
Treasury			660
DORA" AG key control and checklist	160	1 st , 2 nd and 4 th Quarter	
Investments	60	4 th quarter	
Insurance	200	2 nd and 4 th Quarter	
Budgetary controls	240	1 st and 3 rd Quarter	
OHASA			210

General Safety Environment	210	1 st and 3 rd Quarter
Information Technology		210
Auditing Information Technology (environment and applications)	210	1 st and 3 rd Quarter
Year End Procedure		348
Stock Taking and Assets Verification	48	Year End
Other items that affect financial statements	300	Year End
Management Requests		320
Correct usage of votes	0	As requested
Cash float count	0	As requested
Cancellation of receipt	0	As requested
Exceptional report on the meter reading	0	As requested
Logsheet-trip authorisation	0	As requested
Pre audit of MiG expenditure	100	As requested
Monitoring and Management Reporting		720
Follow up audits on External Audit	120	3 rd Quarter
Conducting special audits and follow up on ad hoc audits	200	On-going
Co-ordination of work with external audit	240	On-going
Senior Management Reporting	100	On-going
Performance and Audit Reporting	180	Quarterly

Table 23: Internal audit Coverage Plan

Functions of the internal Audit Division that were performed during the financial year under review

Report
Risk Assessment report
Risk based audit plan approved for 2011/2012 financial year
Number of audits conducted and reported on
Audit reports issued
Indigent management
IT General Controls
Income and Debtors Management
Division of Revenue Act
Performance Management – 1 st quarter
Performance Management 2 nd and 3 rd quarter
Progress report- Implementation of Internal Audit findings

Table 23.1: Functions of the Internal Audit Division Performed

2.6.5 Auditor General

The municipality was audited by the Auditor-General of South Africa in terms of section 188 of the Constitution and section 4 of the public audit Act and section 126 of the Municipal Finance Management Act and the audit report for financial year under review is in annexure B of this report.

2.6.6 By-laws and Policies

The municipality is given executive and legislative authority to pass and implement by-laws and policies by section 11 of the Municipal Systems Act.

By-laws developed and reviewed during the financial year under review

By-law	Date review	Public Participation conducted Yes/No
Cemeteries and Crematoria	13 July 2012	Yes
Electricity Supply		
Waste Management		
Water Restrictions		

Table 24: By-laws

Policies developed and reviewed during the financial year under review

None

2.6.7 Communication

Local government has a legal obligation and political responsibility to ensure regular and effective communication with the community. The Constitution of the Republic of South Africa Act of 1996 and other statutory enactments all impose an obligation on local government communicator and require high levels of transparency, accountability, openness, participatory democracy and direct communication with communities to improve the lives of all communities.

Good customer care is clearly of fundamental importance to any organisation, and analysis here shows that local residents view the municipality's people relations in a negative light, hence the service delivery protest. A successful communication strategy therefore links the people to the municipality's programme for the year.

Communication checklist of the compliance to the communication requirements

Communication Activities	Yes/No
Communication Unit established	Yes
Communication Strategy in place	No
Communication Policy in place	No
Customer satisfaction survey conducted	No
Functional complaint management system	Yes
Newsletter distributed at least quarterly	Yes, but stopped in the second quarter

Table 25: Communication Checklist

2.6.8 Website

A municipal website should form an integral part of a municipality's communication infrastructure and strategy. It serves as a tool for community participation, improves stakeholder involvement and facilitates stakeholder monitoring and evaluation of municipal performance. Section 75 of the Municipal Finance Management Act requires that municipalities place key documents and information on their website, including IDP, the annual budgets, adjustments budgets and budgets related documents and policies. Checklist to indicate the compliance with section 75 of the Municipal Finance Management Act

Documents on Municipal Website	Yes/No
Current annual and adjustment budgets and all budget-related documents	Yes
All current related policies	
The previous annual report (2010/2011)	
Budget Implementation policy-Tariff Policy	
Budget Implementation policy- Credit control and debt Collection Policy	
Budget Implementation policy- Valuation Policy	
Budget Implementation policy-Supply Chain Management Policy	
All current performance agreements required in terms of section 57(1)(b) of the Municipal System Act (2010/2011)	
All services delivery agreements (2011/12)	
All long term borrowing contracts (2011/12)	
All Supply chain management contracts above a prescribed value (give value) for 2010/2011	
An information system containing a list of assets over a prescribed value that have been disposed of in terms of section 14(2) or (4) during (2011/12)	
Contracts agreed in 2011/2012 to which subsection (1) of the section 33 apply, subject to subsection (3) of that section	
Public Private partnership agreements referred to in section 120 made in (2011/12)	
All quarterly reports tabled in the council in terms of section 52 (d) during (2011/12)	

Table 26: Documents on Website

Chapter 3

Organisational

Development Performance

Chapter 3 Organisational Development Performance

3.1 National key Performance Indicators- Municipal Transformation and Organisational Development

This chapter indicates the municipality's performance in terms of the National Key Performance indicators required in terms of the local Government: Municipal Planning and Performance Management Regulation 2001 and section 43 of the Municipal Systems Act. These key performance indicators are linked to the National key Performance Area- Municipal Transformation and Organisational Development.

The municipality encountered certain challenges like employees that occupying position that they do not fit. The municipality does not bring in new staff and put them on a proper induction and once they are not performing, it becomes a problem due to non-proper induction that took place and taking action will have negative results for the municipality. The municipality however try to afford all personnel the opportunity to develop themselves in the form of training courses that can be attended and promote further studies.

3.2 Performance Highlights- Municipal Transformation and Organisational Development

Highlight	Description
Administrative Support to Council	Council and Committee meetings
Human Capital Management	Appointment of employees in vacant posts

Table 27: Challenges-Municipal Transformation and Organisational Development

3.3 Challenges- Municipal Transformation and Organisational Development

Challenges	Actions to Address
Employment Equity and Disabled Applicants	Strict Compliance
Scarce Skills for Strategic positions	Introducing a Scarce Skills Policy

Table 28: Challenges-Municipal Transformation and Organisational Development

3.4 Introduction to the Municipal Workforce

The municipality currently employs 628 (excluding non-permanent positions) officials, who individually and collectively contribute to the achievement of the municipality's objectives. The primary objective of Human Resource Management is to render an innovative Human Resources service that addresses both skills development and administrative function.

The municipality has appointed more employees permanently and using less temporary workers to perform full-time jobs. A Human resource Policy is in place that covers a broad spectrum of human relations and personnel issues. The policies in place address affirmative employment on various aspects. The municipality still have to address challenges on proper induction orientation and courses that ensure new comers to the jobs obtain the necessary skill after finishing the applicable qualifications.

3.4.1 Employment Equity

The Employment Equity Act (1998) Chapter 3, section 15 (1) states that affirmative action measures are measures designed to ensure that suitable qualified people from designated employment opportunities and are equitably represented in all occupational categories and levels in the workforce of a designated employer. The national performance indicator also refers to: "Number of people from employment equity target groups employed in the three highest levels of management in compliance with the municipality's approved employment equity plan".

A) Employment Equity Targets/Actual by Racial Classification

African			Coloured			Indian			White		
Target	Actual	Reach	Target	Actual	Reach	Target	Actual	Reach	Target	Actual	Reach
618	611	No	8	13	Yes	1	1	Yes	36	38	Yes

Table 29: Employment Equity Targets/Actual by Race Classification

Employment Equity Targets/Actual by Gender Classification

Male			Female			Disability		
Target	Actual	Reach	Target	Actual	Reach	Target	Actual	Reach
285	470	Yes	378	192	No	8.04	1.15	No

Table 30: Employment Equity Targets/Actual by Gender Classification

B) Employment Equity v/s Population

Description	African	Coloured	Indian	White	Total
Population Numbers	611	13	1	38	663

Table 31: Employment Equity v/s Population

C) Occupational Categories

Occupational Categories	African		Coloured		Indian		White		Total
	No	%	No	%	No	%	No	%	
Legislators, senior officials and managers	40	80	0	0	0	0	10	20	50
Professionals	2	28.57	0	0	1	14.29	4	57.14	7
Technicians and associate professionals	52	80	0	0	0	0	13	20	65
Clerks	92	88.46	4	3.85	0	0	8	7.69	104
Service and sales workers	19	95	0	0	0	0	1	5	20
Crafts and related trades workers	14	100	0	0	0	0	0	0	100
Plant and machine operators and assemblers	70	95	3	4	0	0	0	0	73
Elementary occupations	329	99	1	0	0	0	0	0	330
Total permanent	618	93.21	8	1.21	1	0.15	36	5.43	663
Non-permanent									76
Grand total	618	93.21	8	1.21	1	0.15	36	5.43	704

Table 32: Occupational Categories

D) Occupational Levels

Department	African		Coloured		Indian		White		Total
	No	%	No	%	No	%	No	%	
Top Management	29	82.86	0	0	0	0	6	17.14	35
Senior Management	11	73.33	0	0	0	0	4	26.67	15
Professional	2	28.57	0	0	1	14.29	4	57.14	7
skilled and academically qualified workers	71	83.53	0	0	0	0	14	16.47	85
Semi-skilled	176	92.15	7	3.66	0	0	8	4.19	191
Unskilled and defined decision	329	99.70	1	0.30	0	0	0	0	330
Total permanent	618	93.21	8	1.21	1	0.15	36	5.43	663
Non-permanent									76
Grand total	618	93.21	8	1.21	1	0.15	36	5.43	704

Table 33: Occupational levels

3.4.2 Vacancy Rate

The approved organogram for the municipality had 770 posts for 2011/2012 financial year. The actual positions filled are indicated in the tables below by post level and by functional level. 76 posts were vacant at the end of 2011/2012, resulting in a vacancy rate of 13.77%

Post Level	Filled	Vacant
Municipal Manager and Municipal Systems Amendment Act section 56 Managers	3	2
Senior Management	35	2
Professionally qualified and experienced specialists and middle management	7	15
Skilled technical and academically qualified workers, junior management, supervisors, foremen and superintendents	85	20
Semi-skilled and discretionary decision making	176	12
Unskilled and defined decision making	322	25
Total	628	76

Table 34: Vacancy Rate

3.4.3 Turnover Rate

A high turnover may be costly to the municipality and might negatively affect productivity, service delivery and institutional memory/organisational knowledge. The turnover rate shows a decrease/increase from 2.63 % in 2010/2011 to 5.92% in 2011/2012.

Year	Total number of appointments at the end of the financial year	New appointments	Number of terminations during the year	Turnover rate
2009/2010				
2010/2011	645		17	2.63%
2011/2012	628	28	39	5.92%

Table 35: Turnover Rate

3.5 Managing the Municipal Workforce

Managing the municipal workforce refers to analysing and coordinating employee behaviour.

3.5.1 Injuries

An occupational injury is a personal injury, disease or death resulting from an occupational accident. Compensation claims for such occupational injuries is calculated according to the seriousness of the

injury/disease and can be costly to the municipality. Occupational injury will influence the loss of man hours and therefore financial and productivity performance.

3.5.2 Sick Leave

The number of day's sick leave taken by employees has service delivery and cost implications. The monitoring of sick leave identifies certain patterns or trends. Once these patterns are identified, corrective actions can be taken.

3.5.3 Human Resource policies and Plans

Policies and plans provide guidance for fair and consistent staff treatment and consistent approach to managing of staff.

Human Resource Policies and Plans				
	Name of Policy	Completed	Reviewed	Date adopted by Council or comment on failure to adopt
1	Affirmative Action	Yes	No	02/06/2008
2	Attraction and Retention	No	No	Draft to be tabled to Council
3	Code of conduct for employees	Yes	Yes	MSA
4	Delegations, Authorizations and Responsibility	Yes	No	31/05/2011
5	Disciplinary Code and Procedures	Yes	Yes	21/04/2010
6	Employee assistance/Wellness	Yes	No	05/10/2009
7	Employment Equity	Yes	No	02/06/2008
8	Exit Management	Yes	No	
9	Grievance Procedures	Yes	Yes	
10	HIV/Aids	Yes	No	01/05/2007
11	Human Resource and Development	Yes	No	02/06/2008
12	Information Technology	Yes	Yes	02/12/2011
13	Job Evaluation	No	No	SALGBC Collective Agreement
14	Leave	Yes	No	01/05/2005
15	Occupational Health and Safety	Yes	No	02/06/2008
16	Official Housing	Yes	Yes	Central SALGBC
17	Official Journeys	Yes	No	30/05/2008
18	Official Transport to attend funerals	Yes	No	28/09/2010
19	Official Working hours and Overtime	Yes	No	SALGBC Collective Agreement
20	Organizational Rights	Yes	No	
21	Payroll Deductions	No	No	
22	Performance Management and Development	Yes	No	02/06/2008
23	Recruitment, Selection and Appointments	Yes	No	SALGA
24	Remuneration Scales and Allowances	Yes	No	02/06/2008
25	Resettlement	Yes	No	
26	Sexual Harassment	Yes	No	
27	Skills Development	Yes	No	
28	Smoking	No	No	
29	Special Skills	No	No	02/06/2008
30	Work Organization	Yes	No	28/09/2010
31	Uniforms and Protective Clothing	Yes	No	02/06/2008
32	Other: Bereavement and Dress Code	No	No	Draft to be tabled to Council

Table 36: Human Resources Policies and Plans

3.5.4 Employee Performance Rewards

In accordance to regulation 32, a performance bonus, based on affordability, may be paid to an employee, after-

- (1) the annual report for the financial year under review has been tabled and adopted by the municipal council;
 - (2) an evaluation of performance in accordance with the provisions of regulation 32; and
 - (3) approval of such evaluation by the municipal council as a reward for outstanding performance
- The evaluation of the performance of section 56 Managers forms the basis for rewarding outstanding performance. For the year under review no performance rewards were paid to municipal employees.

3.6 Capacitating the Municipal Workforce

Section 68(1) of the Municipal Systems Act states that the municipality must develop its human resource capacity to a level that enables it to perform its functions and exercise its powers in an economical, effective and efficient and accountable way. For this purpose the human resource capacity of a

municipality must comply with the provision of the Skills Development Act, 81 of 1998 and the Skills development Levies Act, 28 of 1999.

3.6.2 Skills Development-Training Provided

The Skills development act and the Municipal systems Act require employers to supply employees with the necessary training in order to develop its human resource capacity. Section 55(1)(f) states that as head of administration the Municipal Manager is responsible for management, utilisation and training of staff.

3.6.3 Skills Development-Budget Allocation

The municipality allocated R 984 708 to the workplace skills plan and R of the total amount of the allocation was spend in the financial year.

Total personnel budget	Total Allocation	Total Spend	% Spend
98 470 879	1 211 400	354 026	29.22%

Table 37: Skills Development-Budget Allocation

Due to serious financial constraints the municipality did not spent much on training.

3.7 Managing the Municipal Workforce Expenditure

Section 66 of the Municipal Systems Act states that the accounting officer of a municipality must report to council on all expenditure incurred by the municipality on staff salaries, wages, allowances and benefits. This is in line with the requirements of the public service regulations, 2002, as well as the National treasury budget and Reporting Regulations SA 22 and SA23.

3.7.1 Personnel Expenditure

The percentage expenditure is essential in the budgeting process as it reflects on the current and future efficiency.

Year	Total Expenditure on salary and allowances	Total Operating Expenditure	Percentage
2009/2010	88 394 013	290 547 390	30%
2010/2011	90 296 166	271 296 166	33%
2011/2012	98 470 879	272 462 735	36%

Table 38: Personnel Expenditure

Summary of Councillors and staff benefits for the year

Year	2009/2010	2010/2011	2011/2012	
Description	Actual	Actual	Budget	Actual
Councillors				
Salary	8 013 149	8 143 683	84 723 000	8 223 103
Pension	Amounts included in the salary. Remuneration at a coat to company basis			
Medical				
Sub-total	8 013 149	8 143 683	84 723 000	8 223 103
% Increase		2%		1%
Senior Managers of the Municipality				
Basic Salary	2 425 982	2 746 010		1 954 278
Social Contributions	446 216	744 792		328 715
Motor Vehicle Allowances	529 268	501 338		522 341
Performance Bonus	0	0		0
Sub-total	3 401 466	3 992 140		2 805 334
% Increase		17%		-30%
Other Municipal Staff				
Basic salaries and wages	49 545 467	50 249 496		56 096 703
Social contributions	12 651 408	13 247 328		17 432 564
Motor vehicle allowances	3 485 827	6 053 960		4 736 163
Cell phone allowances	348 097	1 702 285		239 700
Housing allowances	255 364	201 009		0
Overtime	3 348 110	3 073 742		3 988 499
Other benefits or allowances	7 345 125	3 632 522		4 948 813
Sub-total	76 979 398	78 160 342		87 442 442
% Increase		2%		12%
Total Municipality	88 394 013	90 296 165		98 470 879
% Increase		2%		9%

Table 39: Summary of councillors and staff benefits

Chapter 4

Strategic Performance

Chapter 4: Strategic Performance

In this chapter the municipality provide information on the strategic performance and will indicate how well the municipality is meeting its objectives and which policies and process are working and which are not working. All government institutions must report on strategic performance to ensure that service delivery is efficient, effective and economical.

Municipalities must develop strategic plans and allocate resources for the implementation. The implementation must be monitored on an on-going basis and the results must be reported on during the financial year to various role-players to enable them to timeously implement corrective measures where required.

The chapter the illustrates the performance highlights in terms of the Municipality's integrated development Plan, the Service delivery and Budget Implementation Plan, performance on basic service delivery backlogs addressed in the Municipal Infrastructure Grant projects as well as the spending priorities for the following year. It addresses the communication and public participation processes of the institution to give a holistic view and feedback of how the municipality communicates performance to its stakeholders.

The Municipal Systems Act, 32 of 2000 and the Local Government: Municipal Planning and Performance Management regulations 2001 require municipalities to adopt a performance management system. Once the IDP and the Budget has been prepared and approved, the municipality prepared a Service Delivery and Budget Implementation Plan in accordance with Municipal Finance Management Act and Municipal Management Act Circular 13.

4.1 National Key Performance Indicators-Basic Services Delivery and Local Economic Development

Key Performance Area and Indicators	Municipal Achievement		
	2009/2010	2010/2011	2011/2012
Basic Service Delivery			
The percentage of households earning less than R 1 100 per month with access to free basic services	70%	60%	57%
The percentage of households with access to basic service level of water	100%	100%	100%
The percentage of households with access to basic service level of sanitation	64%	64%	64%
The percentage of households with access to basic service level of electricity	100%	100%	100%
The percentage of households with access to basic service level of solid waste removal	100%	100%	100%
Local Economic Development			
The number of jobs created through municipality's local economic development initiatives including capital projects			

Table 40: National Key Performance Indicators-Basic Service Delivery and Local Economic Development

4.2 Strategic Service delivery and Budget Implementation Plan (Top Layer)

The purpose of the strategic performance reporting is to report specifically on the implementation and achievement of the IDP outcomes. This section provides an overview on the strategic achievement of a municipality in terms of strategic intent and deliverables achieved as stated in the IDP. The top level SDBIP is the municipality's strategic plan and shows the strategic alignment between the different documents; (IDP, Budget and Performance Agreements).

4.2.1 Top Level SDBIP – Good Governance and Public Participation

The National KPA Good Governance and Public Participation are linked to the Municipal Key Performance Area namely "Institutional Development".

KPI	Unit of measure	Wards	Baseline	Actual 2010/2011	Actual performance 2011/2012		Comment	Corrective Measure
					Target	Actual		
Annual Performance	Annual report and oversight report of council submitted before legislative deadline	All	1	1	1	1	Oversight Committee did not finish its work	Strict adherence to legislative requirements
Approval of SDBIP	Approved SDBIP before legislative deadline	All	1	1	1	1	n/a	n/a
Community Satisfaction Survey	Development of satisfaction survey by end October	All	0	0	1	0	Still to be done in the 2012/2013	Ensure that it is done annually
Effective functioning of committee system	Number of committee meetings per annum	All	60	60	60	60	n/a	n/a
Functional Internal Audit Committee and Performance Audit Committee	Approved Risk based plan	All	1	1	1	1	n/a	n/a
IDP endorsed by all wards	Number of ward based planning meetings held to produce Ward Plans	All	4	4	18	12	Delay in the implementation of the IDP Review process Plan	Adherence to the approved IDP Review process Plan Programme of action
IDP endorsed by community organisations and stakeholders as local social compacts	Number of community organisations and stakeholders endorsing IDP with regards to meetings	All	190	190	200	175	Lack of participation by councillors and officials	Encourage councillors to fully participate in the IDP processes
IDP includes all sectoral plans	Number of required sectoral plans included	All	5	5	15	5	Lack of capacity and funding	Involvement and assistance from national and Provincial sector departments
Improved good governance	% anti-corruption and fraud policies reviewed	All	0	0	100%	0%	Not implemented	To be actioned in the following financial year
Institutional Performance management Systems in place	Individual performance management implemented up to the lowest level	All	0%	0%	100%	0%	Approved but not implemented	Approved EPAS to be implemented in the following financial year
Compliance with all relevant legislation	% compliance with legislation	All	75%	75%	100%	60%	Audit report	Operation Clean audit
Number of ward committee meetings per ward per annum	Number of ward committee meetings per ward per annum	All	5	12	12	0	Non-submission of reports	Regular submission of reports to the Office of the Speaker
Reaching employment targets	% of targets reached	All			0	89.20%		
Reviewed IDP	Reviewed IDP by end of May	All	1	1	1	1	n/a	n/a
Strengthening role of communities	Number of ward based developed plans completed	All	4	4	18	12	Establishment of ward committees not finalised	n/a
Effective fire fighting services	Establishment of a fire fighting section	All	0	0	1	0	Posts not identified on the organogram	Review and approval of the new organogram
Reviewed Disaster Management Framework	Reviewed disaster management framework	All	0	0	1	0	Capacity	National and Provincial sector departments to assist
Approval of adjustments budget	Approval of adjustments budget before deadline	All	100%	100%	100%	100%	n/a	n/a
Approval of main budget	Approval of budget before deadline	All	100%	100%	100%	100%	n/a	n/a
Creation of effective capacity	% vacancy levels as % of organogram	All						
Effective communication with communities	Reviewed communication strategy	All	0	0	1	0	Capacity	Appointed communication Officer
Effective functioning of council	No of council meetings	All			4		n/a	n/a
Effective on up to date by-laws	% of by-laws revised annually	All			100%			
Effective and up to date HR policies	Revision of all HR policies annually	All						
Effective labour relations	Number of LLF meetings	All						
Targeted skills development	% reviewed and submission of skills development plan	All						

To provide an efficient and effective Administration of Committee Service	Number of EXCO meetings	All	15	15	15	16	More meetings were held that originally also resulted in revision of targets	
	Number of Council Meetings	All	8	8	4	11		
	Number EXCO resolutions implemented	All			10	10		
	Number of council resolutions implemented	All			7	8		
	Number of delegated reports submitted from EXCO to council	All			4	6		
To develop By-laws for effective control over municipal activities	Number of by-laws	All			3	4		
To monitor telephone usage with functional telephone management system	Deductions list for personal calls submitted to salaries for deductions		12	12	12	12		
To provide a functional environment for committees to operate	Number of boardroom tables	8	0	0	1	1		
	Number of chairs	8	0	0	20	20		
Programs of ward councillors and ward committees (meeting)	Number of meetings per ward per month	All	216		216	2	Currently receiving programs	
Capacity workshop for ward committees	Number of workshop per quarter	All	4		4	2	Ward committee members elections not yet completed	
Awareness campaign	Number of awareness campaign held	All	1	1	5	4		
Formulation and development of Communication Strategy	Approved Communication Strategy	Al	0	0	1	0	Work in progress	
Reports	Number of reports to be produced that are in line with IIA standard	All	28	28	28	36	Some owners of the auditable entities did not submit responses and it affected the compilation of the reports	
			4	4	4	1		
Systems descriptions; audit programmes and quarterly plan	Number systems descriptions	All	38	38	45	47	Excessive difference on the plan and actual occurs as the reason making follow up and this will assist institution to achieve its objective	
	Number of audit programmes	All	38	38	38	109		
	Number of quarterly plans	All	14	14	12	38		
Half yearly reports	Number of set of progress reports (half yearly) to be compiled	All	2	2	2	2		
Meeting held	Number of audit committee meetings to be held	All	5	4	5	5		
Signed declaration	Number of departmental meetings to be held to improve client/customer relationship	All	4	4	2	2		
	Number of declarations of independency and secrecy to be signed for the adoption of standards of professional practice of internal audit	All	40	40	56	56		
Coverage plan	Number of coverage plan to be compiled that will determine the focus and priority of auditable areas	All	1	1	2	2		
Reports	Number of report to be produced that are in line with the IIA standard and number of ad hoc	All	4	4	1	1	Some owners of the auditable	

	audit to be audit to be executed						did not submit responses and it affect the compilation of the reports.	
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Table 41: Top Level SDBIP-Good Governance and Public Participation

4.2.3 Top Level SDBIP – Municipal Financial Viability and Management

The National Key Performance Area Municipal Financial Viability and Management is linked to the Municipal Key Performance Area "Institutional Development".

KPI	Unit of measure	Wards	Baseline	Actual 2010/2011	Actual performance 2011/2012		Comment	Corrective Measure
					Target	Actual		
Updated indigent register for provision of free basic services	Updated indigent register on a monthly basis	All			100%	5 293	Lack of registration by community members	Awareness campaign
Improvement in conditional grant spending-capital	% of total conditional grant spent	All			100%			
Improvement in conditional grant spending-operational	% of total conditional grant spent	All	100%	100%	100%	100%	n/a	n/a
Clean Audit	% Root causes of issues raised by AG in AG report addressed	All			100%			
Effective SCM system	Number of successful appeals	All	0	0	0	0	n/a	n/a
Improved revenue collection	% debt recovery rate	All			80%			
% of property valuation appeals								
Preparation of financial statements	Financial statements submitted by end of August	All	1	1	1	1	n/a	n/a

Table 42: Top Level SDBIP-Municipal Financial Viability and Management

4.2.4 Top Level SDBIP-Local Economic Development

The National key Performance Area Local Economic Development is linked to the Municipal Key Performance Areas "Local Economic Development and Social Development.

KPI	Unit of measure	Wards	Baseline	Actual	Actual performance 2011/2012		Comment	Corrective Measure
					Target	Actual		
Ensure safety of municipal property and personnel	Installation of CC TV cameras	All	0	0	100	0		
	Installation of panic buttons	All	0	0	7	0		
	Installation of sound proofs	All	0	0	3	0		
	Building of guard rooms	All	0	0	9	1		
	Installation of X/scanner machine	All	0	0	1	0		
Ensure safety of municipal property and personnel	Installation of alarm system	All	0	0	9	0		
	Purchase of LDV bakkies	All	0	1	2	0		
	Installation of intercom	All	0	1	1	0		
	Installation of bullet proofs	All	0	0	7	0		
	Installation of fire arm safes	All	0	4	7	4		
Public Safety Law enforcement	Issuing of traffic fines	All	4680	3000	0	4643		
	Amount received	All	336920	250000	0	393330		
	Road blocks conducted	All	14	12	12	26		
	Point duty and escort	All	36	0	0	54		
	Amount received	All	0	0	0	10770		
	Accidents	All	388	0	0	215		
	Purchase of vehicles	All	0	1	1	0		
Road maintenance	Maintenance of signs and road markings	All	136	20	55	80		
	Road painting	All	12,5 km	15 km	25 km	25 km		
	Number of vehicles	All	0	1	2	0		
Fire Disaster Management Services	Risk assessment conducted	All	2	4	4	7		
	Number of Incident & Disaster Forum meetings	All	1	1	2	6		

KPI	Unit of measure	Wards	Baseline	Actual	Actual performance 2011/2012		Comment	Corrective Measure
					Target	Actual		
Fire Disaster Management Services	Number meetings with NGO's	All	6	4	12	19		
	Number of inspections(Fire prevention)	All	89	15	72	78		
	Number of fines issued	All	0	0	0	0		
	Number of emergencies/ accident attended to	All	688	0	0	501		
	Number of fires	All	241	0	0	257		
	Number of hazardous material incident	All	22	0	0	3		
	Number of vehicles	All	0	4	2	3		
	Number of fire stations	All	0	2	2	0		

Table 43: Top Level SDBIP-Local Economic Development

4.2.5 Top Level SDBIP – Basic Service Delivery

The National Key Performance Area Basic Service Delivery is linked to the Municipal key Performance Area namely Infrastructure and Basic services.

KPI	Unit of measure	Wards	Baseline	Actual 2010/2011	Actual performance 2011/2012		Comment	Corrective Measure
					Target	Actual		
Water provision		All						
Number of water service points (taps) installed for formal settlement customers	Install 1000 Taps	All			1000	13		
Number of sanitation service points for formal settlement(No. of buckets removed)	Remove 10772 Buckets	All			10772	10772		
Number of sanitation service points for formal settlements (Septic Tanks)	Service 443 Septic Tanks	All			443	443		
Number of sanitation service points for formal settlement (Waterborne)	Service 8173 Full Waterborne Toilets	All			8173	8173		
Manage Water Demand	Megaliters of Water Purified to meet Water Demand target	All			8451	8501		
Water Conservation	Number of Water Leaks repaired	All			0	6632		
Water Quality	% Blue Drop	All			95.2%	90.39%		
	Fickburg							
	Clocolan	All			94.11%	89.47%		
	Marquard	All			91.89%	87.15%		
	Senekal	All			73.80%	87.00%		

KPI	Unit of measure	Wards	Baseline	Actual	Actual Performance 2011/2012		Comment	Corrective Measure
Conserve Natural Resources	Number of Sewer blockages opened	All			0	2183		
Number of sanitation service points for formal settlement	Number of buckets	All	10 772	10 772	0	10 772		
	Number of Septic tank suctioned	All	443	443	0	443		
	Number of full waterborne serviced	All	19 066	19 066	29 838	19 066		
Waste Water Quality	% Green Drop	All						
	Ficksburg	All			25.35	54.5%		
	Clocolan	All			11.6%	100%		
	Marquard	All			15.4%	100%		
	Senekal	All			26.4%	100%		
Street lighting	Number of fittings replaced	All			80	117		
	Number of street lights repaired	All			400	638		
Maintenance	Number of transformers services	All			30	0		
Electricity provision	Number of kilometres of LV cable	All			2km	1.42km		
	Number of 60 x 10.5				50	0		
	Number of substations maintained				20	15		
	Number of mini-substations installed				2	2		

Table 44: Top Level SDBIP-Basic Service Delivery

CAPITAL EXPENDITURE 2011/2012: WATER SERVICES

Capital Projects	2011/12				
	Budget	Adjustments budget	Actual Expenditure	Variance from original budget	Total Project Value
Marquard: Augmentation of Raw Water Supply; Construction of Pipeline & Reservoir	3 358 726.87	3 358 726.87	4 076 356.23	-717 629.36	24 472 152.00
Marquard: Upgrading of Water Treatment Works	3 512 136.58	3 512 136.58	4 643 682.03	-1 131 545.45	11 763 400.00
Megheleng/Ficksburg: Upgrading of Bulk Water Supply	22 414 027.89	22 414 027.89	8 326 305.26	14 087 722.63	55 000 000.00
Matwabeng/Senekal: The Development of Boreholes	11 021 400.33	11 021 400.33	5 677 056.85	5 344 343.48	24 580 594.00
Installation of 4815 Water Meters in Marquard/Moemaneng	643 161.61	643 161.61	31 280.39	611 881.22	5 049 972.11
Installation of 5684 Water Meters in Clocolan/Hlohlwane	293 987.37	293 987.37	105 141.75	188 845.62	5 961 379.21
Installation of 11521 Water Meters in	800 954.94	800 954.94	252 903.35	548 051.59	11 962 392.00

Ficksburg/Meqheleng					
Senekal /Matwabeng: Installation of 7576 Water Meters	3 182 511.99	3 182 511.99	1 198 825.95	1 983 686.04	7 916 672.00
Intervention by DWA, War on Leaks	0.00	1 000000.00	1 000000.00	0.00	1 000000.00
Intervention by DWA, Marquard water Crisis	0.00	1 500000.00	1 500000.00	0.00	1 500000.00
Total All	45 226 907.58	47 726 907.58	26 811 551.91	20 915 355.77	149 206 561.00

Table 45: Capital Expenditure-Water

CAPITAL EXPENDITURE 2010/2011: SANITATION SERVICES

Capital Projects	2010/11				
	Budget	Adjustments budget	Actual Expenditure	Variance from original budget	Total Project Value
Senekal: Upgrading of Waste Water Treatment Works	6 870 615.87	6 870 615.87	4 458 526.52	2 412 089.35	23 540 096.00
Marquard/Moemaneng: Upgrading of Oxidation Ponds	8 567 226.55	8 567 226.55	9 288 757.42	-721 530.87	36 787 167.00
Refurbishment of the Sewerage System in Ficksburg Meqheleng	0.00	4 500 000.00	4 507 746.04	-7 746.04	16 900 000.00
Total All	15 457 842.42	19 957 842.42	18 255 029.98	1 682 812.44	77 227 263.00

Table 46: capital Expenditure-Sanitation

CAPITAL EXPENDITURE 2011/2012: ELECTRICITY SERVICES

Capital Expenditure 2010/11: Electricity Services					
Capital Projects	2011/2012				
	Budget	Adjustments budget	Actual Expenditure	Variance from original budget	Total project Value
Clocolan/ Hlohlowane: Installation of 2 high mast lights (MIS:193476)	435 009.30	435 009.30	172 832.69	262 176.69	587 122.00
Ficksburg/Meqheleng: Installation of 7 high mast lights (MIS:193462)	1 780 675.95	1 780 675.95	470 913.76	1 309 762.19	2 043 184.00
Senekal/Matwabeng: Installation of 5 high mast lights (MIS:193454)	1 273 615.92	1 273 615.92	381 288.86	892 327.06	1 468 123.00
Marquard/Moemaneng: Installation of 2 high mast lights (MIS:194946)	435 009.38	435 009.38	194 434.55	240 574.83	587 122.00
Total All	3 924 310.10	3924 310.10	1 219 469.86	2 704 840.77	4 685 551.00

Table 47: Capital Expenditure-Electricity

CAPITAL EXPENDITURE 2011/2012: WASTE MANAGEMENT SERVICES

Capital Projects	2010/11				
	Budget	Adjustments budget	Actual Expenditure	Variance from original budget	Total Project Value
Ficksburg: Development of Solid Waste Disposal Sites	0	0	283 557.87	-283 557.87	7 128 420.00
Senekal: Development of Solid Waste Disposal Sites	0	0	290 646.42	-290 646.42	4 990 872.00
Marquard: Development of Solid Waste Disposal Sites	0	0	242 809.19	-242 809.19	3 115 620.00
Clocolan: Development of Solid Waste Disposal Sites	0	0	234 455.98	-234 455.98	3 203 400.00
Total All	0	0	1 051 469.46	-1 051 469.46	18 438 312.00

Table 48: Capital Expenditure-Waste Management Services

CAPITAL EXPENDITURE 2011/2012: HOUSING SERVICES

Capital Projects	2011/2012				
	Budget	Adjustments budget	Actual Expenditure	Variance from original budget	Total Project Value
Development of 1000 site Meqheleng and Hloholwane	22 162 000.00	22 162 000.00	0.00	22 162 000.00	22 162 000.00
Total All	22 162 000.00	22 162 000.00	0.00	22 162 000.00	22 162 000.00

Table 49: Capital Expenditure-Housing Services

CAPITAL EXPENDITURE 2011/2012: ROADS AND STORM WATER SERVICES

Capital Projects	2011/2012				
	Budget	Adjustments budget	Actual Expenditure	Variance from original budget	Total Project Value
Marquard/Moemaneng: Construction of 2.0 km Paved Road and Storm Water Drainage	4 948 292.77	4 948 292.77	5 607 609.82	-659 317.05	8 654 133.61
Ficksburg/Meqheleng: Construction of 2.3 km Paved Road and Storm Water Drainage	6 779 366.00	6 779 366.00	6 285 990.26	493 375.74	11 044 018.20
Clocolan/Hloholwane: Construction of 2.1 km Paved Road and Storm Water Drainage	5 194 293.23	5 194 293.23	5 836 356.18	-642 062.95	8 147 832.61
Matwabeng/Senekal: Construction of 2.2 km Paved Road and Storm Water Drainage	4 381 987.37	4 381 987.37	4 913 886.34	-531 898.97	9 088 307.00
Total All	21 303 939.37	21 303 939.37	22 643 843.60	-1 339 903.23	36 934 291.45

Table 50: Capital Expenditure-Roads and Storm Water Services

4.3 Development and Service Delivery Priorities for 2011/2012

4.3.1 To Ensure Financial Viability and Sustainability

Key Performance Indicator	Unit of measure	Annual Target	Actual
Financial viability measured in terms of the available cash to cover fixed operating expenditure	Cost coverage (available cash-investment)/monthly fixed operating expenditure as per SA8		
Financial viability measured in terms of municipality's ability to meet its service debt obligation	Debt coverage (Total operating revenue-operating grants received)/debt service payments due within the year as per SA8		
Financial viability measured in terms of the outstanding service debtors	Service debtors to revenue-(Total outstanding service debtors/revenue received for services as per SA8		
Improved revenue collection	% debt recovery rate as per SA8		
Approve financial statements submitted by 31 August	Approved financial statement submitted	1	1
Compliance with GRAP 16,17 and 102 to ensure effective assets management	0 findings in the audit report on non-compliance affecting the audit opinion	0	
Improvement in operational conditional grant spending measured in terms of % spent	% of grant spent		
Number of issues raised by AG in AG report of the previous financial year attended to promote clean audit	Number of issues attended to		
Compliance with the SCM Policy measured by the limitation of appeals against the municipality	0 successful appeals	0	0
Training of senior and finance middle management staff in minimum competencies	Number of candidates registered		
Improvement on capital conditional grant spending measured in terms of % spent	% of the grant spent	100%	100

Table 51: Financial Viability and Sustainability

4.3.2 To Create Integrated, Sustainable, Linked and Productive Human Settlement

4.3.3 To deepen and Entrench Good Governance Practices, including Better Communication and Public Involvement

Key Performance Indicator	Unit of measure	Annual Target	Actual
IDP measured by the alignment of the municipal spending with the IDP	% of municipality's capital budget spent on capital projects identified in the IDP	76 000 000	77 000 000
Number of Municipal Manager section 56 performance agreements signed at the end of June	Number of performance agreements signed	5	3
Institutional performance management system in place and implemented by all employees below the section 56	Number of employees signed agreements	623	0
Compliance with all legislation	0 findings in the audit report on non-compliance with legislation	Clean Audit	
Functional audit and performance audit committee measured by number of meetings held per annum	Number of meetings held	4	4
Adjustments budget approved by council by legislative deadline	Approval of adjustments budget before the end of February	February	March
Budget approved by council by legislative deadline	Approval of budget by the end of May	May	May
The Top layer SDBIP approved by the Mayor within 28 days after the approval of the budget	Top layer SDBIP approved within 28 days after the approval of the budget	28 June	28 June
Initiatives in the anti-corruption policy is successfully implemented	Number of initiatives implemented in terms of the approved strategy	Development, approval and implementation of the strategy	Three resignations and three disciplinary action
Effective function of ward committees to ensure consistent and regular communication with residents	Number of ward committees meetings per ward per annum	18	12
The municipality listens and talks back to its people by ensuring that the IDP is endorsed by all wards	Number of ward committees endorsing the IDP	18	18
The municipality listens and talks to its by ensuring that the IDP is endorsed by community organisations and stakeholders as local social compact	Number of community stake holders and community organisations and stakeholders endorsing the DIP	100	85
Risk based audit plan approved	Approved plan	1	1
IDP reviewed and compiled by end of May	Reviewed IDP approved by end of May	1	1
The IDP is comprehensive, credible and compliance with the requirements of the Systems Act	% alignment as assessed	100%	80%
Spatial Development Framework aligned to the NSDP and FSGDS as assessed	% alignment as assessed	100%	0%

Table 52: Entrench Good Governance Practices, including Better Communication and Public Involvement

4.3.4 To Foster and Strengthen Strategic partnership and social Development

Key Performance Indicator	Unit of measure	Annual Target	Actual
Targeted skills development measured by the implementation of the workplace skills plan	% of the budget spent on the implementation of the workplace skills plan		
Effective communication with communities	Approved communication strategy	1	0
Review identified HR policies to ensure compliance and up to date HR policies	Number of policies reviewed		
Effective labour relations by facilitating regular LLF meetings per annum	Number of LLF meetings per Annam	12	
Implementation of the skills plan with the targeted skills development	Number of personnel actually trained		
Creative of effective institution with sustainable capacity	% vacancy levels as % of approved organogram	0%	6%
The number of people from employment equity target groups employed in the three highest levels of management in compliance with employment equity plan	Number of people employed		

To determine citizen satisfaction	Customer satisfaction survey conducted	1	0
	% customer satisfaction	100%	0%
Effective and up to date By-laws	Number of By-laws reviewed and promulgated per annum		
Effective functioning of council measured by the number of council meetings per annum	Number of council meetings	4	
Effective functioning of standing committees measured by the number committee meeting held by committees per quarter	Number of committee meetings held	3	

Table 53: Strategic Partnership and Social Development

4.3.5 To Grow the Local Economy in Order to Increase Opportunities for Participation and Equity

Key Performance Indicator	Unit of measure	Annual Target	Actual
Number of jobs created through municipality's local economic development initiatives including capital projects	Number of jobs created of contracts assigned to SMME's		
Value of contracts assigned to SMME's to enhance economic stimulation and development	Rand value of contracts assigned		

Table 54: Local Economy in order to increase opportunities for Participation and Equity

4.4 Basic Service Delivery

4.4.1 Basic Service Delivery Performance Highlights

Key Performance Indicator	Unit of measure	Annual Target	Actual
Blue drop awards	Number of towns receiving blue drop awards	4	
Green drop awards	Number of towns receiving blue green awards	4	

Table 55: Basic Service Delivery Highlights

4.4.2 Service Delivery Challenges

Service Area	Challenge	Action to address
Water	Increase on the blue drop awards	Improve and maintain the standard set
	Reduce water losses	Implementation of zonal meters and implementation of metering system
	Water provision	Increase bulk water supply
Sanitation	Increase on green drop awards	Improve and maintain the standard set
	Bucket eradication	Completion of the sanitation projects
Solid Waste Disposal	Continuous service delivery	Provide service at least twice a week
	Permitted landfill sites	Finalisation of the application and implementation
Electricity	Electricity losses	Reduce % to below 5%
All services	Lack of maintenance and refurbishment of assets compromises service delivery and quality of supply	Implementation of approved organogram and replacement of old vehicles and equipment
	Lack of maintenance leading to poor service delivery due to shortage of resources	Vacant posts to be filled with competent and specialised vehicles to be replaced
	Maintenance and development of GIS for ward profiling	Lobby for technical and financial support
	Inadequate access, development and maintenance to GIS	
	Development of Master Plans	
	Lack of funds to commission the compilation of master plans and other sector plans	
	No departmental capacity and lack of technical support	Appoint skilled and qualified officials
	Improve capital spending-Unspent grants	Management and Monitoring

Table 56: Service Delivery Challenges

4.4.3 Access to Free Basic Services

In accordance with the municipality's approved Indigent Policy, all household earning less than R 1 100.00 per month will receive free basic services as prescribed by national policy.

Year	Total Number of HH	Households							
		Free Basic Electricity		Free Basic Water		Free Basic Sanitation		Free Basic Refuse Removal	
		Number of Access	%	Number of Access	%	Number of Access	%	Number of Access	%
2009/2010	29 572	26 560	89.81%	26 560	89.81%	21 166	71.57%	21 166	71.57%
2010/2011	29 572	26 560	89.81%	26 560	89.81%	21 166	71.57	21 166	71.57
2011/2012	29 572	26 560	89.81%	26 560	89.81%	21 166	71.57%	21 166	71.57%

Table 57: Access to free Basic Services

Year	Electricity								
	Indigent Households			Non-Indigent Households			Households in Eskom Areas		
	No of HH	Unit per HH (Kwh)	Value	No of HH	Unit per HH (Kwh)	Value	No of HH	Unit per HH (Kwh)	Value
2010/2011	5 394	50		21 166	50		21 166	50	
2011/2012	2 448	50		24 202	50		24 202	50	

Table 58: Electricity

Year	Water			Non-Indigent Households		
	Number of HH	Unit per HH (kl)	Value	Number of HH	Unit per HH (kl)	Value
2010/2011	5 394	6		21 166	6	
2011/2012	2 448	6		24 202	6	

Table 59: Water

Year	Sanitation			Non-Indigent Households		
	Number of HH	R per HH	Value	Number of HH	R per HH	Value
2010/2011	5 394			21 166		
2011/2012	2 448			24 202		

Table 60: Sanitation

Year	Refuse removal			Non-Indigent Households		
	Number of HH	Service per HH per month	Value	Number of HH	Service per HH per month	Value
2010/2011	5 394			21 166		
2011/2012	2 448			24 202		

Table 61: Refuse Removal

4.4.4 Access to Basic Level of Services

Number of households that gained access for the first time to the different types of basic services

Type of Services	2009/2010	2010/2011	2011/2012
Water	0	0	0
Electricity	0	0	0
Sanitation	0	0	0
Refuse Removal	0	0	0

Table 62: Number of households that gained access for the first time to the different types of basic services

A) Capital Budget Spent on Municipal Services

The percentage of total approved capital budget spent on each municipal service delivery

Year	Water	Sanitation	Electricity	Refuse Removal	Streets and Storm Water	Community Facilities	Housing
	%	%	%	%	%	%	%
2009/2010							
2010/2011							
2011/2012							

Table 62: Capital budget spent on Municipal Services

B) Percentage Spending on Total Capital Budget

Year	% Capital Budget spent
2010/2011	70%
2011/2012	73%

Table 63: Percentage Spending on Total Capital Budget

4.4.5 Water and Sanitation

Water is probably the most fundamental and indispensable of natural resources, fundamental to life, the environment, food production, hygiene and power generation. Poverty reduction and improved water management are inextricably linked. Section 4 (b) of the Constitution lists water and sanitation services limited to portable water supply systems and domestic wastewater and sewerage disposal system as a local government function. Basic water is defined as 25 litres of portable water per day supplied within 200 metre of a household.

A) Water Service Delivery Levels

Description	2009/2010	2010/2011	2011/2012
	Actual	Actual	Actual
Above Minimum Level			
Piped water inside dwelling	15 902	15 902	15 902
Piped water inside yard (but not in dwelling)	17 507	17 507	17 507
Using public tap (within 2000 metres from dwelling)	13	13	13
Other water supply (within 200 metres)	2 388	2 388	2 388
Minimum Service Level and Above - Sub-Total	35 810	35 810	35 810
Minimum Service Level and Above Percentage	92.47	92.47	92.47
Below Minimum Level			
Using public tap (more than 200 metres from dwelling)	92.47	92.47	92.47
Other water supply (more than 200 metres from dwelling)	0	0	0
No water supply	0	0	0
Below Minimum Service Level Sub-Total	2 913	2 913	2 913
Below Minimum Service Level Percentage	7.53	7.53	7.53
Total Number of Households (Formal and Informal) 38723	2 913	2 913	2 913

Table 64: Water Service Levels

B) Sanitation Service Delivery Levels

Description	2009/2010	2010/2011	2011/2012
	Actual	Actual	Actual
Above Minimum Level			
Flush toilet (connected to sewerage)	22 196	26 582	26 582
Flush toilet (with septic tank)	373	443	443
Pit toilet (ventilated)	0	0	0
Other toilet provisions (above minimum service level)	130	130	130
Minimum Service Level and Above- Sub-Total	22 699	27 155	27 155
Minimum Service Level and Above Percentage	58.61	70.12	70.12
Below Minimum Level			
Bucket toilet	13 111	8 655	8 655
Other toilet provisions (below minimum service level)	2 913	2 913	2 913
No toilet provision	0	0	0
Below Minimum Service Level Sub-Total	16 024	11 568	11 568
Below Minimum Service Level Percentage	41.39	29.88	29.88
Total Number of Households (Formal and Informal)	2 913	2 913	2 913

Table 65: Sanitation Service Levels

4.4.6 Electricity

Local Government plays a very important role in the provision of electricity. Section 153 of the Constitution places the responsibility on municipalities to ensure the provision of services to communities in a sustainable manner for economic and social support.

Description	2009/2010	2010/2011	2011/2012
	Actual	Actual	Actual
Above Minimum Level			
Energy at least minimum service level	24 590	24 950	4 307
Prepaid (minimum service level)	21 928	21 928	21 928
Minimum Service Level and Above- Sub-Total			26 235
Minimum Service Level and Above Percentage			84.2%
Below Minimum Level			
Energy below minimum service level	5 000	500	0
Prepaid below minimum service level	4 911	4 911	4 911
Below Minimum Service Level Sub-Total	4 911	4 911	4 911
Below Minimum Service Level Percentage			15.6%
Total Number of Households (Formal and Informal)			31 146

Table 66: Electricity Service Levels

4.4.7 Refuse Removal

Description	2009/2010	2010/2011	2011/2012
	Actual	Actual	Actual
Above Minimum Level			
Removed at least once a week	0	0	0
Minimum Service Level and Above- Sub-Total	0	0	0
Minimum Service Level and Above Percentage	0	0	0
Below Minimum Level			
Removed less frequently than once a week	29 838	29 838	29 838
Using communal refuse dump	0	0	0
Using own refuse dump	0	0	0
Using rubbish disposal	0	0	0
Other rubbish disposal	0	0	0
No rubbish disposal	0	0	0
Below Minimum Service Level Sub-Total			29 838
Below Minimum Service Level Percentage			100
Total Number of Households (Formal and Informal)			29 838

Table 67: Refuse Removal

4.4.8 Roads

A) Tarred Roads

Overview of the total kilometres of roads maintained and new roads tarred

Year	Total kilometre tarred roads (km)	kilometre of new tar roads (km)	Kilometre existing tar roads re-tarred (km)	Kilometre of existing tar roads re-sheeted (km)	Kilometre tar roads maintained (km)
2009/2010	128.26	0			128.26
2010/2011	128.26	0			128.26
2011/2012	128.26	0			128.26

Table 68: Tarred Road

B) Gravelled Roads

Year	Total kilometre gravel roads (km)	kilometre of new gravel roads constructed (km)	Kilometre gravel roads upgraded to tar (km)	Kilometre tar roads graded and maintained (km)
2009/2010	143.71	0	0	143.71
2010/2011	143.71	0	0	143.71
2011/2012	143.71	0	0	143.71

Table 69: Gravelled Road

4.4.10 Storm Water

A) Storm Water Infrastructure

Total kilometres of storm water maintained and upgraded as well as the kilometres of new storm water pipes installed

Year	Total kilometre storm water measures	Kilometres new storm water measures	Kilometres storm water measures upgraded	Kilometres storm water measured maintained
2009/2010	0	0	0	0
2010/2011	0	0	0	0
2011/2012	0	0	0	0

Table 70: Storm Water Infrastructure

B) Cost of Construction and Maintenance

The amount of money spend on storm water projects

Year	Capital	Maintenance
2009/2010	0	0
2010/2011	0	0
2011/2012	0	0

Table 71: Cost of Construction and Maintenance

4.5 Municipal Grants

Description	2009/2010		2010/2011		2011/2012			Extent to which grant purposes were met
	Amount received	Amount Spent	Amount received	Amount Spent	Amount carried forward	Amount received	Amount Spent	
Equitable Share	107 565 127	107 565 127	133 873 936	133 873 936	0	144 525 000	144 525 000	Fully
Finance Management Grant	1 450 000	1 450 000	1 450 000	1 450 000	0	1 450 000	1 450 000	
Municipal Improvement Grant	790 000	790 000	790 000	790 000	0	790 000	790 000	
EPWP	0	0	0	0	0	10 642 000	10 642 000	
RBIG	0	0	0	0	0	4 000 000	4 000 000	
MIG	21 933 812	21 933 812	70 782 824	70 782 824	28 062 000	80 325 232	80 325 232	

Table 72: Municipal Grants

4.6 Additional Performance

None

4.7 Local Economic Development

4.7.1 Local Economic Development: Highlights

Description	Highlights
Appointment of EPWP Clerk and MIS Clerk to monitor EPWP job creation	EPWP Clerk and MIS Clerk have been appointed to monitor EPWP job creation projects

Table 73: Local Economic Development-Highlights

4.7.2 Local Economic Development Challenges

Description	Highlights
Lack of LED Strategy	Development and implementation of LED Strategy
Lack of sustainable long term programme	Grant funding for long term programmes
Lack of skills in SMME's	Increase skills development
Lack of formal business support implementation	Establishment of high level LED forum
Seasonal unemployment	Increase job creation opportunities

Table 74: Local Economic Development Challenges

Chapter 5

Functional Performance

Chapter 5: Functional Performance

5.1 Performance Highlights per Functional Area

The municipality is made up of the following functional areas:

Department	Division
Office of the Municipal Manager	Municipal Manager
	Integrated Development Planning
	Internal Audit
	Information Technology
Corporate Services	Administration and Support
	Human Resources
	Legal and Communications
	Human Settlement and Planning
Financial Services	Income, Budget and Financial Statements
	Expenditure
	Supply Chain Management
	Local Economic Development and Tourism
Economic and Community Services	Protection Services
	Waste, Parks, Cemeteries and Council Properties
	Project Management Unit
	Electricity, Roads and Storm Water
Technical Services	Water and Sanitation

Table 75: Functional Areas

5.2 Overview of Performance

The municipality did not submit a Top Layer SDBIP for approval, the following performance overview is as per the departmental SDBIPs.

5.3 Performance per Functional Area (Departmental/Operational SDBIP)

5.3.1 Office of the Municipal Manager

It consists of the following divisions:

- Municipal Manager
- Integrated development Planning
- Internal Audit
- Information Technology

The operational Key Performance Indicators for Office of Municipal Manager are aligned to the following National Key Performance Areas, Municipal Key Performance Areas and IDP Strategic Objectives:

National Key Performance Area	Municipal Key Performance Area
Municipal Transformation and Institutional Development	Institutional Development
Municipal Financial Viability and Management	Institutional Development
Good Governance and Public Participation	Institutional Development and Social Development

Table 76: National Key Performance v/s Municipal Key Performance Area-Municipal Manager

5.3.2 Corporate Services

Corporate Services consists of the following divisions

- Director: Corporate services
- Administration and Support
- Legal and Communications
- Human Resources Management
- Human Settlement and Planning

National Key Performance Area	Municipal Key Performance Area
Municipal Transformation and Institutional Development	Institutional Development
Municipal Financial Viability and Management	Institutional Development
Good Governance and Public Participation	Institutional Development and Social Development
Local Economic Development	Local Economic Development

Table 77: National Key Performance v/s Municipal Key Performance Area-Corporate Services

5.3.3 Financial Services

Financial Services consists of the following divisions:

- Director: Financial Services
- Income, Budget and Annual Financial Services
- Expenditure
- Supply Chain Management

National Key Performance Area	Municipal Key Performance Area
Municipal Transformation and Institutional Development	Institutional Development
Municipal Financial Viability and Management	Institutional Development
Good Governance and Public Participation	Institutional Development and Social Development

Table 78: National Key Performance v/s Municipal Key Performance Area-Financial Services

5.3.4 Economic and Community Services

Economic and Community Services consists of the following divisions:

- Local Economic Development and Tourism
- Protection
- Waste, Parks, Cemeteries and Council Properties

National Key Performance Area	Municipal Key Performance Area
Municipal Transformation and Institutional Development	Institutional Development
Municipal Financial Viability and Management	Institutional Development
Good Governance and Public Participation	Institutional Development and Social Development
Basic Service Delivery	Infrastructure and Basic Services

Table 79: National Key Performance v/s Municipal Key Performance Area-Economic and Community Services

5.3.5 Technical Services

Technical Services consists of the following divisions:

- Director: Technical Services
- Project Management Unit
- Electricity, Roads and Storm Water
- Water and Sanitation

National Key Performance Area	Municipal Key Performance Area
Municipal Transformation and Institutional Development	Institutional Development
Municipal Financial Viability and Management	Institutional Development
Basic Service Delivery	Institutional Development and Social Development

Table 80: National Key Performance v/s Municipal Key Performance Area-Technical Services

Chapter 6

Financial Performance

6.1 Financial Sustainability

Key Performance Area and Indicator	2009/2010	2010/2011	2011/2012	Comments
Debt coverage (Total operating revenue-operating grants received):debt service payments due within a year	17.9:1	17.9:1	64.5:1	The indicator determines if the municipality generates enough money to cover outstanding debts, the higher the ration, the better
Service debtors to revenue -(Total outstanding service debtors: revenue received for services)	2.1:1	2.5:1	3.3:1	This is the percentage that outstanding debtors are of annual revenue, the lower the better.
Cost coverage (Available cash + investments): Monthly fixed operating expenditure	1.1:1	1.2:1	0.3:1	This is the percentage that cash on hands will be able to cover monthly expenditure, the higher the better

Table 81: Financial Sustainability

6.2 Financial Viability Highlights

Description	Highlights
Revenue Collection	Appointment of a Collection Company
Electricity losses	Commissioning of electricity losses investigations

Table 82: Financial Viability Highlights

6.3 Financial Viability Challenges

Challenges	Action to address
Debt Collection	Appointment of Debt Collection Company
Poverty ridden society	Development and Implementation of LED Strategy

Table 83: Financial Viability Challenges

6.4 Financial Sustainability

6.4.1 Operating Results

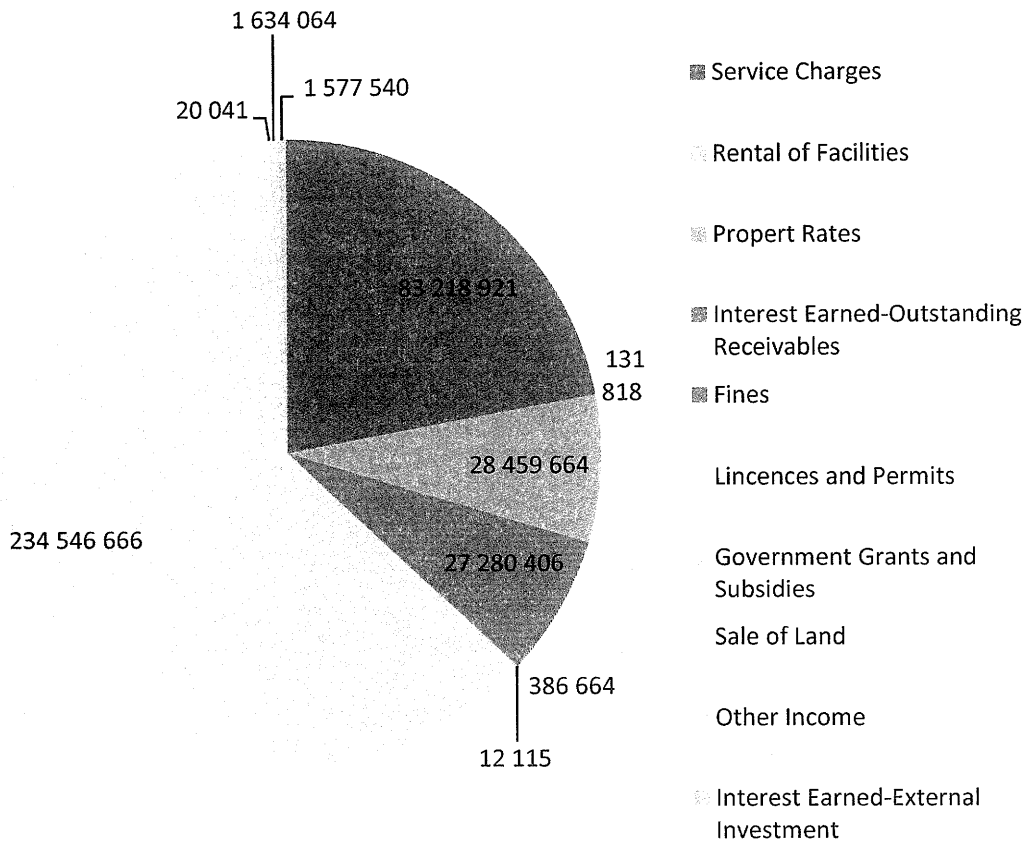
Performance against Budget.

Year	Revenue				Operating Expenditure			
	Budget	Actual	Difference	%	Budget	Actual	Difference	%
2009/2010	293 211 929	263 781 709	29 430 220	89.96%	243 165 278	290 547 372	47 382 000	119.48%
2010/2011	272 496 000	343 278 737	70 782 737	125.9%	271 234 000	271 233 880	120	99.9%
2011/2012	314 893 000	377 267 899	62 374 899	119.8%	314 862 000	272 426 735	42 435 265	86.5%

Table 84: Performance against Budget

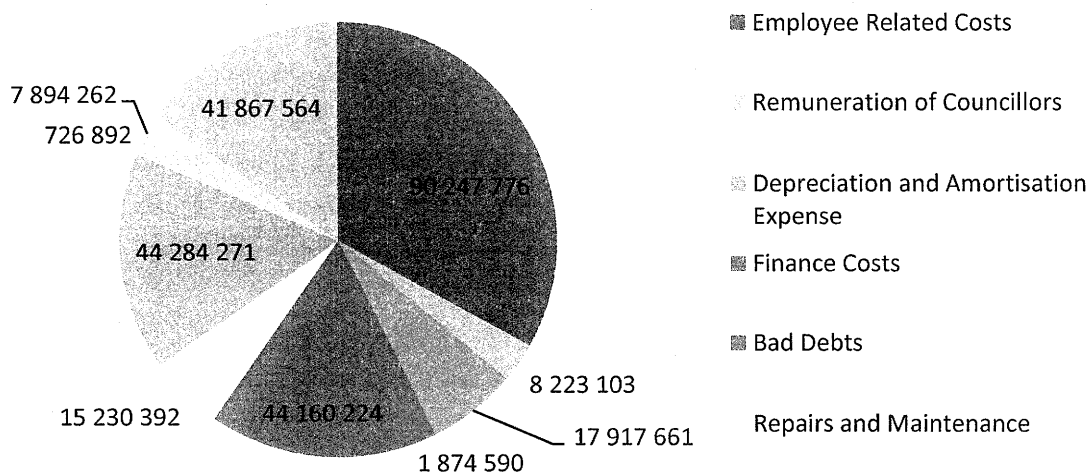
The actual revenue is 19.8% above the budgeted amount

Revenue



Graph 1: Revenue

Operating Expenditure



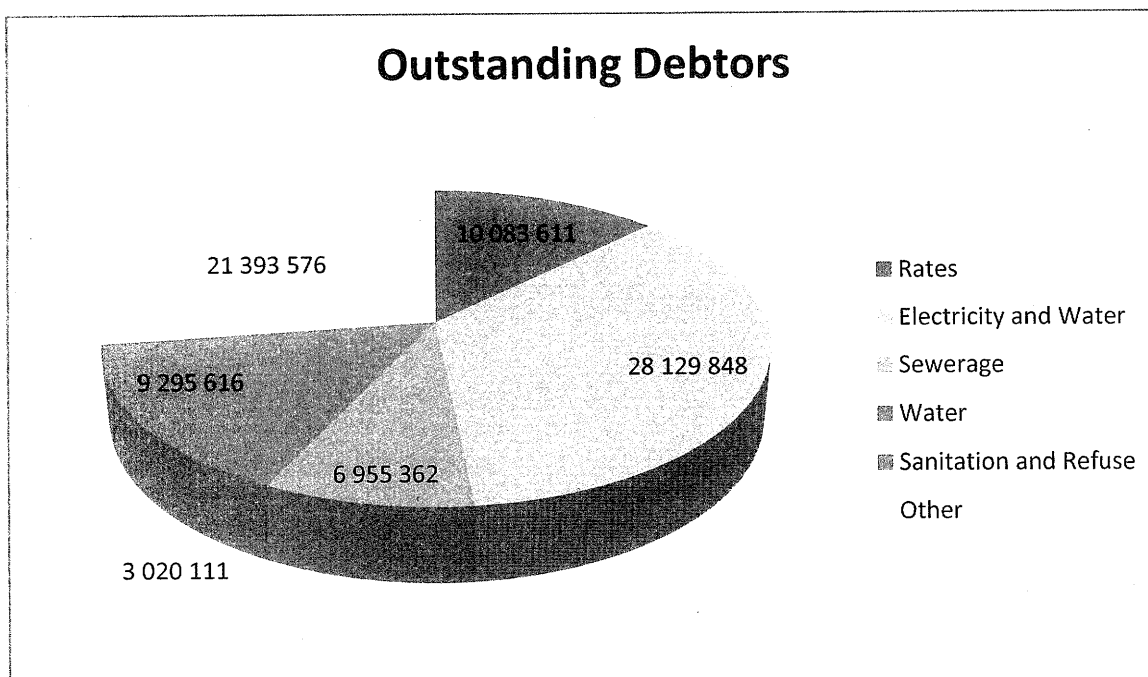
Graph 2: Operating Expenditure

6.4.2 Outstanding Debtors

A) Gross Outstanding Debtors per Service

Year	Property Rates	Trading Services Electricity and Water	Economic Services Sanitation and Refuse	Other	Total
2009/2010					
2010/2011	19 705 469	120 186 234	139 170 877	19 749 474	298 812 054
2011/2012	27 054 861	128 962 102	162 734 695	23 770 393	342 522 051

Table 85: Gross Outstanding Debtors per Service

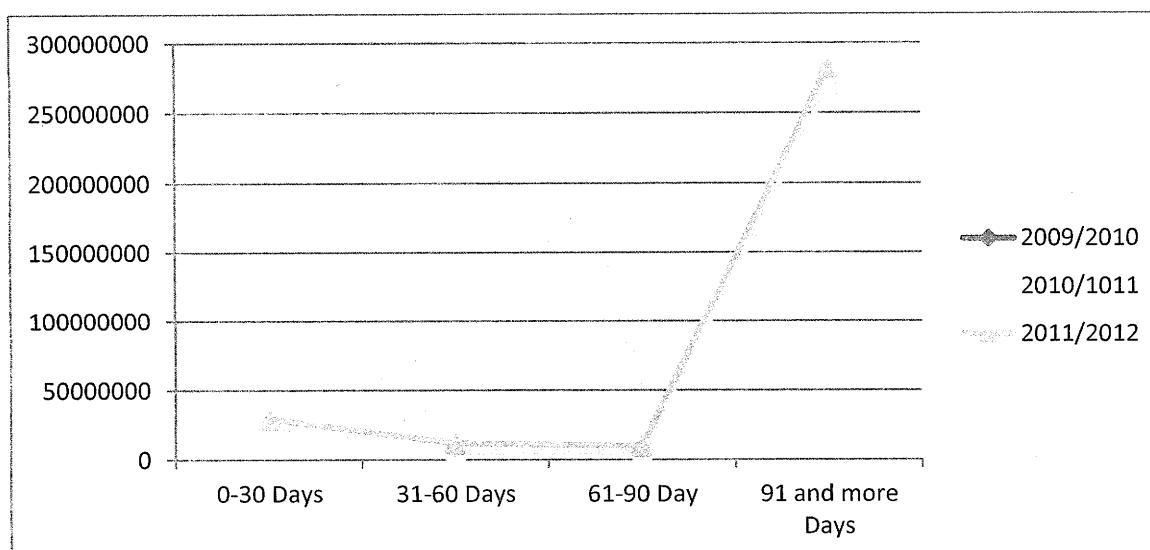


Graph 3: Outstanding Debtors

B) Total Debtors Age Analysis

Year	Less than 30 days	Between 31-60 days	Between 61-90 days	More than 91 days	Total
2009/2010	23 132 584	7 219 383	6 666 575	193 115 763	234 762 662
2010/2011	20 649 694	6 023 635	5 515 287	268 114 833	300 303 449
2011/2012	29 479 562	11 986 799	9 827 531	291 228 379	342 522 271

Table 87: Total Debtor Age Analysis



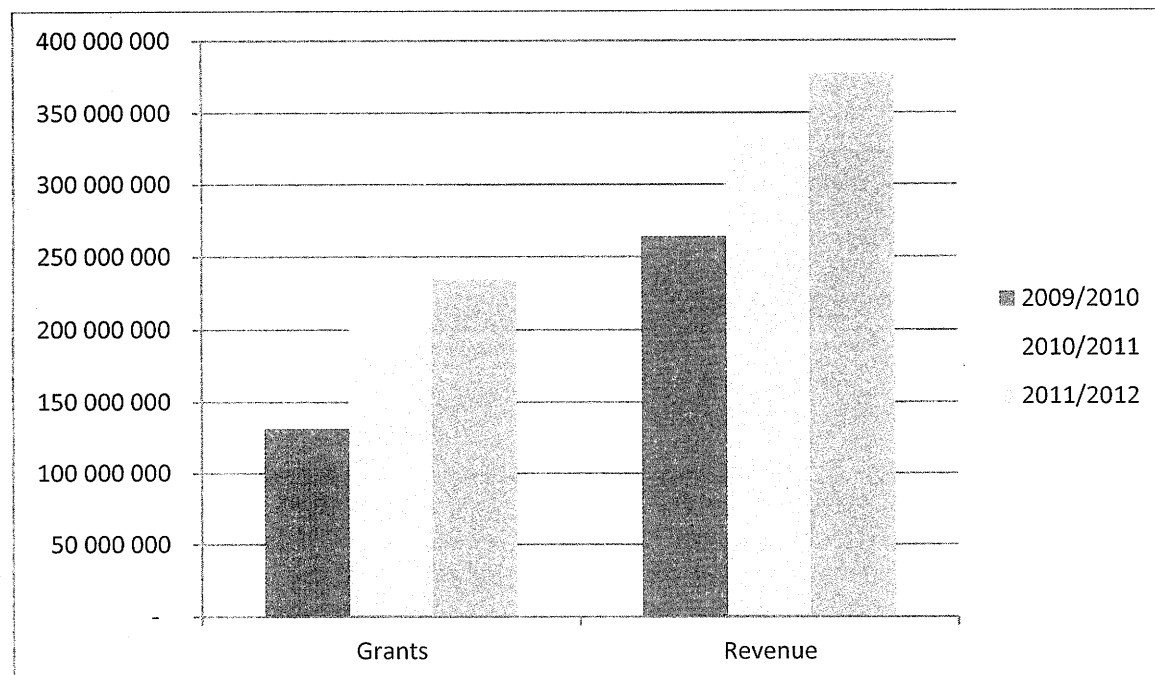
Graph 4: Total Debtor Age Analysis

6.4.3 Viability Indicators

A) Level of Reliance on Grants and Subsidies

Year	Total Grants And Subsidies Received	Total Operating Revenue	Percentage Reliance
2009/2010	130 983 939	263 781 709	49.65
2010/2011	206 606 760	343 278 737	60.18%
2011/2012	234 546 666	377 267 899	62.17%

Table 88: Level of Reliance on Grants and Subsidies



Graph 5: Level of Reliance on Grants

B) Liquidity Ratio

Year	Net Current Assets	Net Current Liabilities	Ratio
2009/2010	77 434 986	93 038 305	0.83:1
2010/2011	119 689 190	117 979 084	1.01:1
2011/2012	128 967 797	103 110 213	1.25:1

Table 89: Liquidity Ratio

6.4.4 Audited Outcomes

Year	2009/2010	2010/2011	2011/2012
Status	Qualified	Adverse	

Table 90: Audited Outcomes

Details on the outcome of the past financial year with the corrective steps implemented:

No.	AFR 2011	Intervention to correct	Action	Responsible person	Target date for implementation of corrective steps
Cash flow Statement					
7.	In terms of paragraph of GRAP 3 Accounting Policies, Changes in Accounting Estimates and Errors (GRAP 3), an entity that restates comparative figures is required to disclose the nature of the prior period error; for each prior period presented, to the extent practicable, the amount of the correction for each financial statement line item affected. The comparative figures for the cash flow for the period ending 30 June 2011 are as it did not agree with the final audited figures of the previous financial year and not disclosed in the financial statements.	The matter will be address during the preparation of the financial statements for the 2011/12 financial year.	The AFS for 30 June 2012 will address the issue and ensure correctness.	Acting Chief Financial Officer	31 July 2012

No.	AFR 2011	Intervention to correct	Action	Responsible person	Target date for implementation of corrective steps
Property, plant and equipment (PPE)					
8.	I could not obtain sufficient appropriate audit evidence to support the existence, completeness and valuation of, as well as the municipality's rights to, PPE amounting to R642 682 817 (2010: R546 038 278) as disclosed in note 8 to the financial statements. The asset register, which is deemed to be the only suitable record of the municipality's assets, differed by R 708 105 from the disclosed balances. It was also not considered to be realised due to the following shortcoming identified:	In terms of directive 4 all asset registers need to be correctly implemented during the 2011 financial year. A request was made to COGTA for assistance of valuation and costing of infrastructure assets.		Acting Chief Financial Officer	31 July 2012
8(a).	The assets register did not in all instances provide sufficient information on the physical location, unique identification numbers and valuation of assets.		New updated verification of assets has been done by the municipality. The only thing that is outstanding is to renumber the assets with an aluminum bar label machine that was ordered.	Accountant Assets Management	31 December 2012
8(b)	Various assets were also identified without any information on the cost of the assets the municipality's records did not allow me to perform alternative procedures to obtain sufficient and appropriate audit evidence.		Valuation and costing of assets specifically infrastructure assets as well as land will be done by IMESA personnel. The draft report will be presented to the ACFO on Friday, 03 August 2012, then the second process will be unfold and the final report will be presented by 31 August 2012	Acting Chief Financial Officer	31 August 2012
9.	Sufficient appropriate audit evidence for capital expenditure of R4 524 130 (2010: R8 012 297) could not be presented for audit purposes. Thus, I could not confirm the existence, completeness and valuation of, and the municipality's rights to, PPE. The municipality's records did not allow me to perform alternative procedures in this regards.	Resolved with AG as the information has been provided, but the issue has not been taken out of the queries.	Resolved. Information is available and documentation will be provided again.	Acting Chief Financial Officer	30 June 2012
10.	The opening balance of PPE in 2010-11 was restated in the asset register from R323 154 016 to R128 836 970. However, the restatement did not agree to the financial position and note 8 to the financial statements. The different could not be explained and I was unable to perform alternative procedure in this regard.	The issue has been investigated and will be rectified during the compilation of the Annual Financial Statement for the year 2011/2012.	The Accountant Asset, together with the person responsible for the financial statements will investigate and address the disclosed shortcoming.	Acting Chief Financial Officer	17 August 2012
11.	The statement of changes in assets was restated for a prior period error adjustment from R94 791 to R4 019 603. This amount was not verifiable against the audited financial statements of 2009-10, which included an error adjustment of only R94 791. The completeness, valuation as well as the municipality's rights could not be verified against sufficient, appropriate audit evidence. I was unable to perform alternative procedure in this regards.	The matter will be rectified during the compilation of the Annual Financial Statement for the year 2011/2012.	The Accountant Asset, together with the person responsible for the financial statements will investigate and address the disclosed shortcoming.	Acting Chief Financial Officer	17 August 2012
12.	I could not obtain sufficient appropriate audit evidence to confirm the existence, completeness and valuation of, and the municipality's rights to, impairment amounting to R203 830 435 disclosed in note 8 to the financial statement and R 189 315 032 disclosed in the statement of changes to the net assets. This is due to the fact that the opening balances for each class of assets and the net value of any impairment for each class of asset could not be confirmed. The balance of impairment losses disclosed in note 8 to the financial statement also differed from the balance disclosed in the reconciliation of PPE in note 8 by R13 159 079, and the difference could not be resolved. The municipality's records did not allow me to perform reasonable alternative audit	The matter will be rectified during the compilation of the Annual Financial Statement for the year 2011/2012.	The Accountant Asset, together with the person responsible for the financial statements will investigate and address the disclosed shortcoming.	Acting Chief Financial Officer	17 August 2012

	procedures to confirm the balances.				
13.	In terms of paragraph 18 of GRAP 21 – Impairment of non cash generating assets, an entity shall assess at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable service amount of the asset. In the previous year it was reported that lease assets with a carry value of R6 898 601 were identified that could be impaired. No prior error were identified in the 2010/11 financial statements for the correction of this error not adjusted in the previous year and therefore the opening balance of leasehold assets of R15 419 696 could be misstated.	The matter will be rectified during the compilation of the Annual Financial Statement for the year 2011/2012.	The Accountant Asset, together with the person responsible for the financial statements will investigate and address the disclosed shortcoming.	Acting Chief Financial Officer	17 August 2012
14.	GRAP 17 <i>Property, Plant and Equipment</i> requires the municipality to review the residual value and the useful life of an asset at least at each reporting date and, if expectations differ from previous estimates, the changes must be accounted for as a change in an accounting estimate in accordance with GRAP 3. I could not obtain sufficient appropriate audit evidence that the municipality had reviewed the assets to determine if there was a change in accounting estimate.	The matter will be rectified during the compilation of the Annual Financial Statement for the year 2011/2012.	Valuation and costing of assets specifically infrastructure assets as well as land will be done by IMESA personnel.	Acting Chief Financial Officer	17 August 2012
15.	I could not obtain sufficient appropriate audit evidence that the municipality had identified investment properties and made the appropriate disclosures in the financial statement as required by paragraph 84 of GRAP 16 Investment Property. Although the municipality recognised rental income of R355 344, the asset register did not clearly identify the investment properties. Consequently, I could not obtain any assurance over the valuation and completeness of investment property included in land and community assets of R78 368 850 disclosed in note 8 to the financial statements.	The municipality does not have property that were obtained for the purpose of Investment Property and property that is leased out, only serves as housing or communal land for future extensions to town establishment.	No Action	Acting Chief Financial Officer	30 June 2012
16.	GRAP 17 requires that subsequent to initial recognition at cost, an item PPE should be carried at cost less accumulated depreciation and accumulated impairment losses. As indicated in note 8 to the financial statements, land and buildings were not impaired but had it been done, land and buildings of R288 667 050 would have been impaired to R78 368 850, which is currently disclosed in the financial statement, an amount of R210 298 200 from the properties owned by the municipality as indicated in the valuation roll is not recognised in the financial statements resulting in a misstatement of PPE and impairment losses by this amount.	The issue raised here is about erven (stands) in the townships that has been sold over years to the community, but the Title Deeds have not yet been transferred into the name of the new owners. The municipality has no right to these stands and cannot indicate it as impairment losses. The amounts used by the AG to calculate the amount of R210 298 200 is based on the valuation roll that has been prepared four years ago. These stands have been sold many years ago.	No action to be taken by management - perhaps the PPE policy can address the issue by stipulating that stands that have been sold/issued in the townships been indicated as sold and not be recognised as PPE.	Acting Chief Financial Officer	31 July 2012
17.	An amount of R189 315 545 was directly accounted as impairment losses against the accumulated surplus for the year ending 30 June 2011 as disclose in the statement of changes in the net assets. Since the municipality did not distinguish between what assets are cash generations and those are not, there are no disclosures in the financial statements as required by paragraph 72 of GRAP 21 – Impairment of non-cash generated assets or 120 of GRAP 26 – <i>Impairment Of Cash Generating Assets</i> .	The matter will be rectified during the compilation of the Annual Financial Statement for the year 2011/2012.	The Accountant Asset, together with the person responsible for the financial statements will investigate and address the disclosed shortcoming.	Acting Chief Financial Officer	20 August 2012
18.	Included in the amount of R2 651 107 in note 21 (other income) to the financial statements were proceeds of R1 184 254 in lieu of property sales not yet recognised and disclosed as disposals in a reconciliation to the class of PPE as required by paragraph 82(e) of GRAP	The matter will be investigated and corrected during the compilation of the Annual Financial Statement for the year 2011/2012.	The correct figures will be stated in the Annual Financial Statement for the year 2011/2012.	Acting Chief Financial Officer	31 July 2012

	17, resulting in the PPE in note 8 and revenue being overstated by R1 184 254.	Net effect on the revenue will be zero and thus not overstated.			
Trade and other payables from exchange transactions					
19.	Included with trade and other payables from exchange transactions is an amount of R4 889 345 in respect of unidentified deposits received. This account balance was not cleared at year end and the identity of the depositor was not known. Consequently, the amount could not be substantiated against sufficient appropriate audit evidence and therefore the valuation, obligation of this amount could not be confirmed. I was unable to perform alternative procedures owing to limitation with the computerised system in use.	The letter will be written to the First National Bank whereby we requested the bank to provide us with detail information of the money that was deposited into our bank account.	The Bank Reconciliation Clerk together with the Accountant Income are busy allocating the money to the specific accounts, however they are still waiting for the bank to give them other information on those deposits that could not be traced.	Acting Chief Financial Officer Elsa de Beer	7 August 2012
20.	Paragraph 14 of IAS 39: Financial instruments: Recognition and measurement states that an entity shall recognise a financial liability in its statement of financial position when, and only when, the entity becomes a party to the contractual provisions of the instrument. Trade payable transactions of R540 173 were identified that were not included in the balance of trade and other payable from exchange transaction in note 9 to the financial statements. Consequently, the completeness of trade and other payable could not confirm.	The statement will be investigated and rectified during the compilation of the Annual Financial Statement for the year 2011/2012.	ACFO will ensure that the AFS stated correctly.	Acting Chief Financial Officer	20 August 2012
21.	Trade and other payables (note 9) were increased from R 12 551 924 to R 25 671 567 in the revised financial statements Included was R6 141 816 in respect of payments received in advance, which were not supported by sufficient appropriate audit evidence. Furthermore, the balance of note 9 to the financial statements of R741 620 (2010: R681 933) could not be substantiated against sufficient appropriate audit evidence. Consequently, I was unable to confirm the valuation, right and obligations as well as completeness of trade and other payables in note 9. I was not able to perform alternative procedure owing to limitations with the accounting system in use.	The statement will be investigated and rectified if necessary. The R12 551 924 should be R18 459 235. The debtor Trial Balance indicates the credits used and this practice is the acceptable procedure to report.	ACFO will ensure that the disclosures not are being supported with evidence.	Acting Chief Financial Officer	20 August 2012
22.	Included with the balance for trade and other payables from exchange transactions of R25 671 567 as disclosed in note 9 was a staff leave accrual of R7 017 048. This balance includes leave credits calculated at R2 160 862 that should not form part of this account thus overstating the account balance and understating the accumulated surplus at year-end.	The Salary Accountant together with budget and statement will be scrutinize the information before included in the Annual Financial Statement.	ACFO together with the MFMA Advisor will thoroughly review the AFS	Acting Chief Financial Officer	20 August 2012
Trade and other receivables from exchange transactions					
23.	A difference of R1 million exist between management calculations of non-recoverable of R231 074 513 and the financial statements in support of the trade and other receivables amount of R230 071 476 resulting in an understatement of this account balance. The entity's systems did not permit me to perform alternative procedures as a result, the completeness and valuation of non recoverable could not be confirmed.	Management has found no difference between the figure as presented in the AFS and the report provided to the AG.	No action	Acting Chief Financial Officer	N/A

24.	The completeness and validity of an amount of R6 146 354 that is included in net trade and other receivables from exchange transactions of R70 231 973 could not be audit satisfactory owing to a lack of sufficient, appropriate audit evidence. As a result, I am unable to verify the municipality's claim and confirm that that these monies were not owed to and recoverable by the municipality, nor could I perform alternative procedures owing to limitations identified with the accounting system in use.	The matter will be investigated and corrected during the compilation of the Annual Financial Statement for the year 2011/2012.	The correct figures will be stated in the Annual Financial Statement for the year 2011/2012.	Acting Chief Financial Officer	31 July 2012
25.	The financial statement disclosure of note 4 (trade and other receivables from exchange transactions) was incorrect, owing to the reconciliation of the debt impairment provision showing a closing balance of R230 071 476 that differed by R5 231 579 from the trade and other receivables from exchange transactions analysis in note 4 to the financial statements of R224 839 897. Similarly, trade and other receivables from exchange transactions of R300 303 449 differed by R11 373 395.	The matter was investigate and found that the difference was R1 491 315 and not as indicated by the AG.	The matter will be rectified during the Annual Financial Statement for the year 2011/2012.	Acting Chief Financial Officer	20 August 2012
Inventory					
26.	As reported in paragraph 13 of my previous report, inventory of R1 744 376 (2010: R1281 881) was again not audited satisfactory because I did not find sufficient appropriate audit evidence that the process of stock count were done in an adequate manner. Shortcomings identified includes inventory items were identified that were not recorded on the inventory system and stores trail balance, old, damaged and redundant items still at store location and not taken off the inventory registers and third party inventory at the municipal store location that were not counted and recorded as consignment stock. Owing to this, I could again not perform reasonable alternative procedures to confirm the municipality's right to inventory, valuation, existence and completeness of inventory at 30 June 2011.	The necessary steps and procedures will be established and put into place to ensure that every item is counted during stock taking as well quarterly verification.	Stock count has been done on quarterly basis and deviations found are corrected.	Acting Chief Financial Officer	06 July 2012
27.	Contrary to paragraph 45 of GRAP 12 – Inventories that requires that the financial statements disclose the amount of inventories recognised as an expense during the period and the amount of any write-down of inventories recognised as an expense and other associated disclosures, no such disclosures was included in the financial statements for the year ending 30 June 2011.	The disclose note will be included in the financial statement for the year 2011/2012.	Acting CFO to ensure that AFS been disclosed properly. The MFMA Advisor will review the AFS before being present to the Internal Audit Unit and Audit Committee.	Acting Chief Financial Officer & MFMA Advisor	20 August 2012
Unspent conditional grants					
28.	The balance of unspent conditional grants of R8 175 155 (2010: R32 205 544) could not be substantiated by sufficient audit evidence. Consequently, I could not confirm the completeness, valuation, obligation and existence assertions and was unable to perform alternative procedures as a result of shortcoming in internal control.	The Expenditure Clerk furnish the Project Management Unit with the payment voucher as and when the payment has been made.	ACFO has prepared a cash flow statement on monthly basis. Management and Councillors are being informed about finance of the municipality on monthly basis.	Acting Chief Financial Officer & Acting Technical Services	On going
29.	According to note 14; an amount of R78 831 389 were recognised as income during the year. The completeness, valuation, obligation and existence assertions of this amount could not be audited owing to lack of sufficient, appropriate audit evidence. According to note 8, an amount of R66 610 389 were spent on property, plant and equipment resulting in a difference of R11 720 503 which could not be resolved satisfactorily. The application of alternative procedures was not possible owing to shortcoming in internal control.	The matter was investigated and found that the amount that the AG reflected was incorrect with R 500 000 and the correct amount was R78 331 389.	The Council to condone the expenditure on PPE as District Municipal Grants and Provincial Government Grants as from own funds if it is cleared that it will not be received.	Acting Chief Financial Officer	30 June 2012 Council Resolution!!
Irregular expenditure					
30(a).	Payments of R25 903 939 were made towards contracts that had not been awarded in accordance with the municipal supply chain management	Matters has be investigate and report will be table to council for condonation.	Acting CFO to finalise.	Acting Chief Financial Officer	30 June 2012 Council condonation of

	(SCM) policy, resulting in irregular expenditure. The possibility that fraudulent actions took place with the awarding of these contracts could not be excluded.				irregular expenditure by Council with reasons.
30 (b).	Irregular expenditure of R31 004 (2010: R1 183 153) incurred as a result of payments to councillors in excess of the limits determined in terms of the Remuneration of Public Officer Bearers Act, 1998, are not disclosed in note 36.	The Councillors dispute the money that were wrongly paid to them and they pass a resolution that an Independent Chartered Accountant to be appointed.	The money owed are being deducted on monthly basis and an independent CA firm has been appointed to verify the transactions (overpayments and the deductions).	Acting Chief Financial Officer	31 August 2012
30 (c).	In terms of section 43(2) of the annual Division of Revenue Act, 2010 (Act No. 1 of 2010) (DoRA), spending of an allocation in contravention of the DoRA constitutes irregular expenses in terms of the MFMA. An amount of R4 529 873 from the municipal infrastructure grant was used to defray operational expenses in the previous financial year, resulting in irregular being understated by the same amount in the financial statements.	Due to the negative cash flow situation, the administration was compelled to utilize the cash available from infrastructure grants.	The municipality has take steps to improve its cash flow situation and part of the unspent funds has been withheld by NT in the current financial year. <i>Council to take note of the cash flow situation and to condone the irregular expenditure</i>	Acting Chief Financial Officer	30 June 2012
Fruitless and wasteful expenditure					
31.	The completeness, accuracy, classification and occurrence of fruitless and wasteful expenditure of R11 038 059 (2010: R1 347 142) disclosed in note 35 to the financial statements could not be determined, as transactions of R4 370 294 were identified during the year that had not been included in the disclosure note. These exclude amounts to be paid as a result of the delays with the finalisation of the audit processes and additional work performed on late responses to replies to audit findings, which were in many instances not submitted or submitted late.	The municipality will endeavour to rectify the situation and put procedures in place to ensure positive outcomes.	The Expenditure Clerk updates register relating to the unauthorised, irregular as well as fruitless and wasteful expenditure. Expenditure incurred that does not comply with the SCM threshold- Deviation report are been reported to the Finance Committee as when it happened.	Acting Chief Financial Officer	30 June 2012
Unauthorised expenditure					
32.	The completeness of unauthorised expenditure of R21 181 328 disclosed in note 34: Unauthorised Expenditure to the financial statements could not be determined because of the following:-	The capital expenditure to be investigated, clarified and council to approve (authorise) the expenditure.	Same as point 31.	Acting Chief Financial Officer	20 August 2012
32.(a)	Capital expenditure of R1 095 548 was identified in the previous year that constitute unauthorised expenditure because it was not budgeted for or disclosed in the financial statements				
32.(b)	Current year spending exceed the limits of the amounts appropriated for the different votes in an approved budget by R21 552 328 for which only R21 141 328 was included in note 34 to the financial statements, resulting in an understatement of R411 000.				
		The expenditure to be investigated and council to approve.	The Expenditure Clerk updates register relating to the unauthorised, irregular as well as fruitless and wasteful expenditure. Expenditure incurred that does not comply with the SCM threshold- Deviation report are been reported to the Finance Committee as when it happened.		20 August 2012
General expenditure					
33.	Sufficient appropriate audit evidence for expenditure payments of R19 850 412 was not obtained, resulting in a limitation on the audit. The systems in use by the municipality did not permit the application of alternative procedures.	The Accountant Expenditure is retrieving the expenditure payments and it will be submitted to external auditor during their planning stage.	There are personnel who have been assigned to do filing of payment voucher. The payment voucher has been filing in terms of the cheque numbers and electronic transfer. There is also a spreadsheet that indicates payment vouchers that are contained in the file and has been updated as and when a person removes the document.	Acting Chief Financial Officer	05 September 2012
34.	An amount of R644 816 was paid to several contractors for the establishment of a nursery in previous	Same as point 33.	The item will be drawn and presented to Council for condonation.	Acting Chief Financial Officer	30 June 2012

	financial years, which to date could not be substantiated by way of sufficient appropriate audit evidence, while management processes were not adequate to enable me to perform alternative procedures.				
Investment in municipal entity					
35.	The financial statements of the municipality could be materially misstated because the financial information of the municipal entity, the Setsoto Integrated Dairy Project, established by the council during the financial year was not consolidated and a consolidated set of financial statements presented for audit as required by section 126(1)(b) of the MFMA.	Meeting between the Entity CEO and responsible official in finance to agree on a process to make available all relevant documents and information to complete a consolidated AFS, if any is still outstanding.	Entity CEO make available (if any is still outstanding) relevant documents to finance department	Chief Executive Officer – Entity	27 February 2012
Related party transactions					
36.	I was unable to obtain the representations considered necessary from the accounting officer with respect to the identification and balances of, and transactions with, related parties. Consequently, I could not determine the effect on the disclosures in note 32 to the financial statements and was also unable to perform alternative procedures owing to limitation with obtaining of information.	A process has put in place and a policy was drafted and approved by the Council on the 30 th May 2012.	Awareness campaign on employees will done which is schedule from the 02 nd - 08 th August 2012.	Acting Chief Financial Officer & Director Corporate Services	31 August 2012
Going Concern					
37.	The municipality faces challenges that highlighted in note 47 (going concern), but the disclose is incomplete and does not include the following going concern risks faced by the municipality:	Council takes note and will endeavour to rectify.	Improved budgeting and more strict measures and management of expenditure	MM/CFO/All Directors	30 June 2012
•	Decline in service standards: during the financial year, several community protests were observed of which the most notable were the one on 14 April 2011 and subsequent to year-end on 14 September 2011. A commission of enquiry was set up to investigate cases of irregularities, of which the report was presented to the council. As per the approved adjustment budget, the council included R21 million from a government department in respect of capital spending but by year-end no monies had been received.	Council to ensure that only funds published in the DORA or Provincial Gazettes to be included in the budget in order not to create expectations.	Council to ensure that only funds published in the DORA or Provincial Gazettes to be included in the budget in order not to create expectations.	Municipal Manager	30 June 2012
•	Poor accounting and performance management systems and controls: during the year, financial reports were not submitted timeously to the relevant stakeholders owing to the implementation of a new financial statement system. These included VAT 201 returns, bank reconciliations, section 71(2) MFMA reports and valuation roll reconciliations.	Management take note and will endeavour to rectify the situation	The financial reports has been submitted to the different stakeholders on monthly basis, however there was financial reports that has incorrect figure and were place to Council. And those reports were corrected. Since then the MFMA Advisor is verifying the reports before being submitted.	Acting Chief Financial Officer	On going
•	Over-reliance on government grants and subsidies: the municipality is not able to generate sufficient cash to finance its normal course of business transactions. According to the 2010-11 financial statement, revenue exchange and non-exchange transactions was R343 278 736 whereas government grants and subsidies of R206 606 760 represent 60% of the total revenue in 2010-11. According to the approved budget, the council indicated that the budget of R379 million would be 40% financed internally and 60% from external sources. Eight million rand of the government grants received from the conditional municipal infrastructure grant was spent on items not related to the condition of the grant.	Improved budget principles and budgeting to be effected.	The municipality has buffed up the credit control division and they are enforcing credit and debt collection policy. The attorney has been appointed on the 27 June 2012 to assist with collection.	Acting Chief Financial Officer	
•	Operating issues: during the previous year, numerous findings were raised by internal and external audit. To date, no formal replies to these findings have been received. The financial statements presented for auditing contained material errors and were not prepared in terms of the appropriate accounting framework, which required external assistance several government	Procedures are put in place and internal audit findings are being submitted to the office of the municipal manager. Then upon the receipt the secretary distribute the findings that are accompanied with	The CAE reports in the Management meeting on the status of the responses include detailed findings.	Municipal Manager	On going

	departments to bring it in line with the GRAP accounting framework.	the memo.			
Financial instruments: presentation and disclosure					
38.	In terms of paragraphs 33 and 34 of IFRS 7, the municipality is required to disclose for each type of risk arising from financial instruments prescribed qualitative and quantitative disclosures. The municipality did not provide me with sufficient appropriate audit evidence to substantiate the disclosure made in note 46 (risk management) to the financial statements. Consequently, I was unable to adequately audit the occurrence, rights and obligations, completeness, classification, accuracy and compliance assertions. Owing to shortcomings identified with the accounting system, I was unable to perform alternative procedures.	The disclose note will be included in the financial statement for the year 2011/2012.	Acting CFO to ensure that AFS been disclosed properly. The MFMA Advisor will review the AFS before being present to the Internal Audit Unit and Audit Committee.	Acting Chief Financial Officer	20 August 2012
VAT Receivables and VAT payables					
39.	The Value Added Tax (VAT) receivable of R5 584 510 was incorrectly included in both the VAT receivable and the VAT payable at 30 June 2011. This resulted in the overstatement of the VAT payable of R5 584 510 at year end as reflected in note 11 to the financial statements.	The matter has been investigated and found that when payment was made the portion of vat was allocated incorrectly and now the journal will be pass on vat control account.	It will be rectify during the compilation of the financial statement for the 2011/2012.	Acting Chief Financial Officer	20 August 2012
40.	Input VAT of R5 317 185 was not claimed resulting in VAT receivables as disclosed in note 12 to the financial statements understated by this amount and PPE overstated at 30 June 2011.	Same as point 39.	Same as point 39.	Acting Chief Financial Officer	20 August 2012
Bulk purchases					
41.	The disclosure of bulk purchases of R30 341 173 in note 27 to the financial statements did not agree to the general ledger total of R33 922 173. Not all purchases were included in note 27 resulting in an understatement of bulk purchase expenditure of R3 581 068.	The municipality will endeavour to ensure that the same do not happen again.	Daily and monthly reconciliation has been done to ensure that the payments are being allocated in the correct vote.	Acting Chief Financial Officer, Expenditure Manager Expenditure Clerks	On going
Other receivables from non-exchange transactions					
42.	Deductions in respect of employee taxes for certain employees were not done contrary to the tax tables determined in terms of paragraph 9(1) of the 4 th Schedule, resulting in an overstatement of employees tax amounting to R868 033, which was included in the amount of R8 468 466 disclosed in note 38 to the financial statements. Payables from non-exchange transactions were understated by R868 033 and other payables and other receivables overstated with the same amount.	Matter has been investigated and rectified.	The VIP consultant was called to rectify the matter as now on the system has been programmed to comply with SARS. However, the minor issue/problem that we face was the rates for employees who travel with their own vehicle and claim money back. And this will have a negative impact on employees.	Acting Chief Financial Officer	30 June 2012
43.	The contract performance measures and the methods whereby they were monitored were insufficient to ensure effective contract management as per the requirements of section 116(2)(c) of the MFMA. Payments were made in previous years that included overpayments to suppliers for which not receivable was created. Other receivables were therefore understated by R802 581 at year-end.	The municipality will endeavour to rectify the situation and put procedures in place to ensure positive outcomes.	Measures will be put in place to ensure that overpayment does not take place. Project Management Unit Manager conduct site inspection before any payments made and performance are being measured against their contract/service level	Acting Chief Financial Officer	On going
Predetermined objectives					
49.	I was unable to conduct the audit of performance against predetermined objectives as the municipality did not submit the annual performance report as required by section 46 of the MSA and section 121(3)(c) of the MFMA.	All quarterly reports to be submitted with supporting documentation	Annual Report to be made available by 31 August 2012	Municipal Manager	31 August 2012
Strategic and performance management					
50.	The municipality did not implement a framework that describes and represents how the municipality's cycle and processes of performance planning, monitoring, measurement, review, reporting and improvement	Revised Organisational Performance Management System Policy Framework	Approved during council meeting of the 02 August 2012	Municipal Manager	03 August 2012

	will be conducted, organised and managed, including determining the roles of different role players as required by sections 38, 39, 40 and 41 of the Municipal Systems Act (MSA) and Municipal Planning and Performance Management Regulations (MPPMR) 7 and 8.				
51.	The accounting officer of the municipality did not by 25 January assess the performance of the municipality during the first half of the financial year, taking into account the municipality's service delivery performance during the first half of the financial year and the service delivery targets and performance indicators set in the service delivery and budget implementation plan as required by section 72(1)(a)(ii) of the MFMA.	The Mid-year Assessment Report for 2011/2012 was tabled on the 25 January 2012	Adherence to the requirement from January 2012 onwards	Municipal Manager	25 January 2012
52.	The municipality did not enter into a service delivery agreement with the municipal entity for the provision of a municipal service as required by section 76(b) of the MSA and MPPMR 9.	The CEO to meet with the Legal Manager from the Municipality to discuss the Service Delivery Agreement	Schedule a meeting with the Legal Manager	Chief Executive Officer - Entity	28 th February 2012
Compliance with laws and regulations, Municipal Finance Management Act (MFMA) and Annual Budgets					
53.	The service delivery and budget implementation plan (SDBIP) were never completed and submitted to the mayor for approval which is contrary to section 53(1)(c) of the MFMA, that requires of the mayor of a municipality to take all reasonable steps to ensure that the municipality's service delivery and budget implementation plan (SDBIP) is approved within 28 days after the approval of the budget.	Executive Committee approved the SDBIP 2012/2013 on the 03 July 2012	Approved SDBIP to ensure regularly quarterly reporting	Municipal Manager	03 July 2012
54.	The accounting officer did not always submit the monthly budget statements to the mayor and/or relevant provincial treasury, as required by section 71(1) of the MFMA.	Process will be put in place and the political office will be furnished with the report.	On monthly basis, the budget and statement division furnish the office of the Mayor with the report on the same time when they submit the report to the Provincial and National treasury.	ACFO & Municipal Manager	Monthly basis
55.	The municipality incurred expenditure that was not budgeted for and/or incurred expenditure in excess of the limits of the amounts provided for in the votes in the approved budget, in contravention of section 15 of the MFMA.	Process will be put in place and budget mid-year assessment will be done.	The budget and statement division will have a formal session with the head of departments and division whereby their going to assess their budget in terms of spending and this will be done in January 2012 and thereafter the adjustment budget will be drafted and presented to Council.	All Directors	31 January 2012
Human resource management					
56.	The municipal manager and senior managers directly accountable to the municipal manager did not sign annual performance agreements for the year under review, as required by sections 57(1)(b) and 57(2)(a) of the MSA.	Newly appointed Senior Officials signed Performance Agreements and Performance Plans for the period April 2012- June 2012	For the period July 2012- June 2013 the process is being finalized	Municipal Manager	09 July 2012
57.	The municipal manager did not provide job descriptions for each post in the staff establishment as required by section 66(1)(b) of the MSA because job descriptions in place were all outdated and not relevant to the operations of the municipality in all instances.	A plan has been drafted to address the outdated and unsigned job descriptions including appointment letters.	The 202 personnel files have been verified and the outcome of the verification revealed that 29 job descriptions were not signed by both parties and 69 were not placed in the personnel files. And 31 of appointment letters were not signed and placed in the personnel files. Currently, the division has drafted new appointment letters and will be sent to management for signature. The division is in the process of interacting with the head	Director Corporate Services	31 August 2012

			of affected departments for revising the outdated job descriptions including the unsigned ones.		
58.	Contrary to the requirements of sections 38(a) and 40 of the MSA, no appropriate systems are in place that ensures that the performance of staff of the municipality are monitored and reviewed continuously and steps taken to address any shortcomings identified during this process.	Revised PMS Policy Framework approved	Implementation of the EPAS throughout the municipal workforce	Director Corporate Services	01 July 2012
Annual financial statements and annual report					
59.	The municipal council did not adopt an oversight report containing the council's comments on the annual report within two months from the date on which the 2009/10 annual report was tabled in the council as required by section 129(1) of the MFMA.	Terms of reference for the Oversight Committee on the 2010/2011 Annual Report to be extended to consider the 2009/2010 Annual Report	Oversight Report on the 2009/2010 to be submitted with the Oversight Report on the 2010/2011 Annual Report for council consideration and condonation	Municipal Manager	02 August 2012
60.	The financial statement submitted for auditing did not comply with section 122(3) of the MFMA. Material misstatements were identified during the audit, certain of which were corrected by management. Those that were not corrected are included in the basis for the adverse opinion paragraphs.	The municipality will endeavor to rectify the situation that the AFS do not misstate the financial situation in the municipality	More emphasis has been put on the timely finishing of the AFS in order for another party and the Audit Committee to revise the AFS for material misstatements.	Acting Chief Financial Officer	20 August 2012
Expenditure management					
61.	The accounting officer did not take effective and appropriate steps to prevent unauthorised, irregular as well as fruitless and wasteful expenditure, as per the requirements of section 62(1)(d) of the MFMA.	The municipality will ensure that a register be kept for possible unauthorized, irregular as well as fruitless and wasteful expenditure and that the MM and senior staff do everything possible to prevent.	The municipality will endeavor to prevent unauthorized, irregular as well as fruitless and wasteful expenditure. An instance where it happen approval will be obtained.	Municipal Manager	On going
Procurement and contract management					
62.	Sufficient appropriate audit evidence could not be obtained that bid specifications were drafted by bid specification committees which were composed of one or more officials of the municipality as required by SCM regulation 27(3).	The municipality will endeavor to rectify the situation.	Documentation relating to Bid Specification will be kept and where the consultant has been appointed to draft the specification, we will ensure that they formal those deliberation.	Municipal Manager	On going
63.	Sufficient appropriate audit evidence could not be obtained that goods and services with a transaction value of between R10 000 and R200 000 were procured by means of obtaining written price quotations from at least three different prospective providers as per the requirements of SCM regulation 17(a) & (c).	The municipality will endeavour to rectify the situation and put procedures in place to ensure positive outcomes.	The Expenditure Clerk updates register relating to the unauthorised, irregular as well as fruitless and wasteful expenditure. Expenditure incurred that does not comply with the SCM threshold- Deviation report are been reported to the Finance Committee as when it happened.	Acting Chief Financial Officer	On going
64.	Sufficient appropriate audit evidence could not be obtained that goods and services of transaction value above R200 000 were procured by means of inviting competitive bids as per the requirements of SCM regulation 19(a) and 36(1).	The municipality will endeavour to rectify the situation and put procedures in place to ensure positive outcomes.	Expenditure incurred that does not comply with the SCM threshold- Deviation report are been reported to the Finance Committee as when it happened.	Acting Chief Financial Officer	On going
65.	The contract performance measures and methods whereby they are mentioned were insufficient to ensure effective contract management as per the requirements of section 116(2)(c) of the MFMA.	The municipality will endeavour to rectify the situation and put procedures in place to ensure positive outcomes.	Project Management Unit Manager conduct site inspection before any payments made and performance are being measured against their contract/service level agreement.	Acting Director Technical Services	On going
Assets management					
66.	The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained an effective system of internal control for assets (including an asset register) as required by section 63(2)(c) of the MFMA.	The municipality will endeavor to rectify and put processes in place to comply.	Same as 8(a).	Municipal Manager; Acting Chief Financial Officer, & Accountant Asset Management	31 December 2012
Audit Committees					
67.	The performance audit committee or another committee functioning as the performance audit committee did not perform the following as required by Municipal Planning and Performance	A set of reports with regard to the financial performance and performance information were	Reports were present to the committee on the 25 August 2011 and 20 March 2012.	Chief Audit Executive	Implemented as from 25 August 2011.

	<p>Management Regulation 14:</p> <ul style="list-style-type: none"> Review the municipality's performance management system and make recommendations in this regard to the council of the municipality Submit an auditor's report to the council regarding the performance management system at least twice during the financial year. 	<p>tabled to the Audit Committee on the 29 January 2011; 06 May 2011 and 27 June 2011. The one of the financial performance – mid year assessment was tabled on the 06 May 2011.</p> <p>On the 03rd August 2011, the Council took a resolution (i.e Council Resolution No 28/8) to repeal a performance audit committee and give Audit Committee the power to perform the functions of the Performance Audit Committee and now we are having an Audit and Performance Audit Committee.</p>			
Financial misconduct					
68.	Investigations were not instituted into all allegations of financial misconduct against officials of the municipality, as required by section 171(4)(a) of the MFMA.	Application of the recommendation by the section 105 Commission	Actions have been taken where applicable.	Municipal Manager	31 December 2012
Revenue management					
69.	Revenue received by the municipality was not always reconciled at least on a weekly basis, as required by section 64(2)(h) of the MFMA.	Revenue is reconciled on a monthly basis due to the impracticality of doing it on a weekly basis.	The municipality will continue reconciling revenue on a monthly basis as the financial procedures allow.	Acting Chief Financial Officer	28 February 2012
Leadership					
71.	The accounting officer did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.	Adherence to legislative requirements to be implemented and quarterly reporting through the SDBIP	All certified section 71 reports to be submitted to the Mayor, National and Provincial Treasury within the required timeframe	Municipal Manager	01 July 2012
72.	Management did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.	Evidence based performance reporting is being implemented (attachment of all supporting documentation)	Recordkeeping is done timely and on a continuous basis.	Municipal Manager	31 January 2012
73.	The Mayor and Municipal Manager did not implement effective human resource management to ensure that performance is monitored by ensuring that performance agreements were signed in line with the MSA	Newly appointed Senior Officials signed Performance Agreements and Performance Plans for the period April 2012-June 2012	For the period July 2012-June 2013 the process is being finalized	Municipal Manager	09 July 2012
Financial and performance management					
74.	The accounting officer did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.	<p>The implementation of the new financial system will overcome the wrongs.</p> <p>Executive Committee approved the SDBIP 2012/2013 on the 03 July 2012</p>	<p>The implementation of the new financial system allowed us to improve on reporting and provide reliable information.</p> <p>Approved SDBIP to ensure regularly quarterly reporting</p>	Municipal Manager	<p>31 August 2012</p> <p>03 July 2012</p>

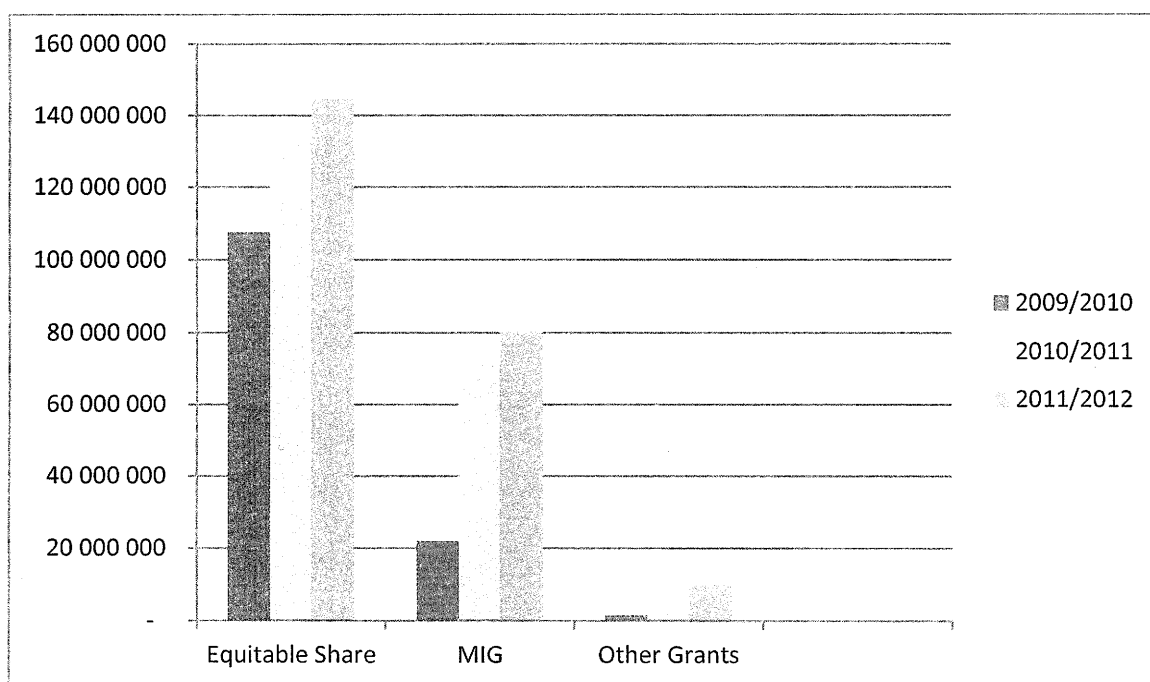
75.	Management did not review and monitor compliance with applicable laws and regulation.	Policies will be reviewed and communicated to all employees.	Policies relating to financial matter were reviewed and approved by Council on the 30 May 2012 and the only portion that is left was the policies pertaining to Human resource. Those policies were presented to the Human Resource Development Committee which is a sub-committee of the Labour Local Forum on the 25 th June 2012.	All directors & Municipal Manager	31 December 2012
76.	The accounting officer did not implement controls over daily and monthly processing and reconciling of transactions.	Process will be put in place and reconciliation of transactions will be done on daily and monthly basis.	Creditors are being reconciled before payments are done, however there are instance where reconciliation were done on the forth quarter and this matter will be corrected. The bank reconciliation has been done on monthly basis however there was a problem regarding the closing balance and opening balance which the finance department is busy rectifying the matter. the same department is busy rectifying part A and part B of the valuation roll.	Municipal Manager & Acting Chief Financial Officer	On going
Governance					
77.	Management did not implement appropriate risk management activities to ensure that regular risk assessments, including consideration of IT risks and fraud prevention, as well as the review of the effectiveness of the audit committee, were conducted and that a risk strategy to address the risks is developed and monitored.	Department of Cooperative Government and Traditional Affairs conduct a risk assessment on the 12-13 of February 2012 and a risk management report was forwarded to the municipality to mitigate the risks that were identified. On the matter relating to the effectiveness of the Audit committee, an item was drawn and presented to Council on the 02 December 2011 and it was resolved that the workshop be held for the evaluation of the performance of the committee.	To mitigate the risks were identified, the risk officer will be appointed and risk management will be included in the performance agreement of directors include the ones of the accounting officer. Workshop was organised on the 29 February 2012. The assessment on the performance of the committee will be done at the end each financial year.	Municipal Manager Chief Audit Executive	31 August 2012 13 July 2012

Table 91: Action Plan

6.4.5 Grants Share v/s Total Revenue

Description of Revenue	Amount Received	Amount Received	Amount Received
	2009/2010	2010/2011	2011/2012
Equitable Share	107 565 127	133 873 936	144 525 000
MIG Grants	21 933 812	70 782 824	80 325 232
Other Grants	1 485 939	1 950 000	9 696 434
Total Revenue	130 983 939	206 606 760	234 546 666

Table 92: Grants Share v/s Revenue



Graph 6: Grants Share v/s Total Revenue

6.4.6 Repairs and Maintenance

Description	2009/2010	2010/2011	2011/2012
Total Operating Expenditure	290 547 372	271 233 880	272 426 735
Repairs and Maintenance	9 512 605	11 955 766	15 230 392
Percentage of Total Operating Expenditure	3.27%	4.40%	5.60%

Table 93: Repairs and Maintenance

6.4.7 Capital Funded by Source

Description	2009/2010	2010/2011	2011/2012
External Loans	0	0	0
Grants and Subsidies	21 933 812	70 782 824	80 325 232
Public Contributions and Donations	4 895 937	0	0
Own funding	0	0	0
Other	0	0	0
Total Capital Expenditure	26 829 749	70 782 824	80 325 232

Table 94: Capital Funded by Source

List of Abbreviations

AG	Auditor General
BI	Baseline Indicator
Capex	Capital Budget
CBP	Community Based Planning
IDP	Integrated Development Plan
Km	Kilometre
KPA	Key Performance Area
KPI	Key Performance Indicator
LED	Local Economic Development
LGMSA	Local Government: Municipal Systems Act
MIG	Municipal Infrastructure Grant
MSA	Municipal Structures Act
Opex	Operational Budget
PMS	Performance Management Systems
SDBIP	Service Delivery and Budget Implementation Plan

Annexure A

Financial Statements



Setsoto Local Municipality
Financial statements
for the year ended 30 June 2012

Auditor-General of South Africa (AGSA)

Setsoto Local Municipality

General Information

Legal form of entity	A Municipality which is an organ of state within the local sphere of government exercising legislative and executive authority.
Nature of business and principal activities	A Local Authority providing municipal services and maintaining the best interest of the community in the Setsoto Municipal area.
Mayor	Jakobo, Tshediso
Executive Committee	Koalane, Komane Mthimkhulu, Motena Mahlangu, Matseliso Lithebe, Moeletsi Makae, Thabang Strydom, Evert
Councillors	Mohlomi, Molefi - Speaker Mothibeli, Moselantja Mohapi, Dieketseng Mokhuoane, Krog Motsei, Matlakala Selasi, Motsamai Modire, Lehlaku Nakasi, Mojabeng Bath, Henry Thamae, Motsamai Makhalanyane, Tieho Mohala, Vunga Kere, Lefa Mavaliso, Pakalitha Maduna, Mbothoma Semahla, Mookho Maphisa, Mapuleng Muso, Tshepiso Tsolo, Thabiso Malebo, Matsiliso Fuso, Sabata Raboroko, Mantwa Mohase, Teboho Selai, Lithebe Lubbe, Cornelias Du Toit, Benjamin Marwick, Clive (Dr) Bester, Catherine
Grading of local authority	06
Accounting Officer	S T R Ramakarane
Chief Finance Officer (CFO)	D J Van Tonder (Acting)

Setsoto Local Municipality

General Information

Business address	27 Voortrekker Street Ficksburg 9730
Postal address	P O Box 116 Ficksburg 9730
Bankers	First National Bank (FNB)
Auditors	Auditor-General of South Africa (AGSA)
Telephone Number	(051) 933 9300
Fax Number	(051) 933 9343
E-mail Address	manager@setsoto.co.za

Setsotho Local Municipality

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The reports and statements set out below comprise the Annual Financial Statements presented to the Auditor-General of South Africa (AGSA):

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Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of Southern Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act [Act No. 56 of 2003]
MIG	Municipal Infrastructure Grant

Setsoto Local Municipality

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act No. 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the financial statements and was given unrestricted access to all financial records and related data.

The financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2013 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The financial statements are prepared on the basis that the municipality is a going concern and that the Municipality has neither the intention nor the need to liquidate or curtail materially its scale.

Although the accounting officer are primarily responsible for the financial affairs of the municipality, they are supported by the municipality's external auditors.

The external auditors are responsible for independently reviewing and reporting on the municipality's financial statements. The financial statements have been examined by the municipality's external auditors and their report is presented on page 5.

The financial statements set out on pages 6 to 78, which have been prepared on the going concern basis (Please refer to Note 50), were approved by the accounting officer on 20 March 2013 :

Accounting Officer
S T R Ramakarane



AUDITOR-GENERAL

Report of the Auditor General

To the Auditor General of South Africa (AGSA) of Setsoto Local Municipality

Report on the financial statements

This report will be inserted after the completion of the audit.

Auditor-General of South Africa (AGSA)

20 March 2013

Setsoto Local Municipality

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2012.

1. Review of activities

Main business and operations

The municipality is engaged in a local authority providing municipal services and maintaining the best interest of the community in the Setsoto municipal area and operates principally in South Africa.

The operating results and state of affairs of the municipality are fully set out in the attached financial statements and do not in our opinion require any further comment.

Net deficit of the municipality was R 59,791,362 (2011: deficit R 98,806,411).

2. Going concern

We draw attention to the fact that at 30 June 2012, the municipality had accumulated surplus of R 2,195,191,765 and that the municipality's total assets exceed its liabilities.

The financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality.

3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

4. Accounting Officer's interest in contracts

The Accounting Officer had no interest in any contracts.

5. Accounting policies

The financial statements prepared in accordance with the South African Standards of Generally Recognized Accounting Practices (GRAP), including any interpretations and directives of such Standards issued by the Accounting Practices Board, and in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

6. Non-current assets

Details of major changes in the nature of the non-current assets of the municipality during the year were as follows:

The Annual Financial Statements of the Municipality this year reflects a significant increase in the value of non-current assets. This was brought about by the conclusion of a project embarked by the Municipality to compile a GRAP compliant Fixed Asset Register.

7. Accounting Officer

The current accounting officer of the municipality is as follows:

Name	Nationality
Mr S T R Ramakarane	South African

8. Auditors

Auditor-General of South Africa (AGSA) will continue in office for the next financial period.

Setso Local Municipality
Statement of Financial Position as at 30 June 2012

		2012	Restated 2011
	Note		
Assets			
Current Assets			
Inventories	3	1,616,233	1,744,376
Investments	4	-	10,006,881
Trade and Other Receivables from Exchange Transactions	5	66,508,234	59,622,343
Other receivables from non-exchange transactions	6	5,446,434	32,782,261
VAT receivable	7	41,163,561	17,731,372
Current Portion of Receivables	8	3,573	3,573
Cash and cash equivalents	9	6,791,111	4,300,406
		121,529,146	126,191,212
Non-Current Assets			
Investment property	10	14,635,448	16,058,925
Property, plant and equipment	11	2,156,383,140	2,275,383,854
Intangible assets	12	638,948	651,501
Investments	4	1,956,694	1,131,714
Non Current Receivables	8	4,866	8,439
		2,173,619,096	2,293,234,433
Total Assets		2,295,148,242	2,419,425,645
Liabilities			
Current Liabilities			
Current Portion of Borrowings	13	369,369	3,342,020
Finance lease Liability	14	1,729,946	4,255,768
Trade Payables and other payables from exchange transactions	15	51,116,770	25,618,850
VAT Payable	16	14,112,547	16,927,633
Consumer deposits	17	2,168,198	1,997,051
Current Portion of Unspent conditional grants and receipts	18	16,925,219	28,062,562
Provisions	19	493,643	896,175
Bank overdraft	9	-	31,241,798
		86,915,692	112,341,857
Non-Current Liabilities			
Non Current Borrowings	13	7,722,733	8,075,240
Finance lease Liability	14	697,560	2,437,369
Provisions	19	4,620,492	3,957,634
		13,040,785	14,470,243
Total Liabilities		99,956,477	126,812,100
Net Assets		2,195,191,765	2,292,613,545
Net Assets			
Accumulated surplus		2,195,191,765	2,292,613,545

Setso Local Municipality

Statement of Financial Performance for the year ended 30 June 2012

		2012	Restated 2011
	Note(s)		
Revenue			
Property rates	22	28,459,664	23,679,681
Service charges	23	101,681,034	95,427,270
Rental of facilities and equipment	53	130,661	435,891
Fines		386,664	296,925
Licences and permits		11,826	756
Government grants & subsidies	24	240,191,168	209,090,580
Sale of land		20,041	1,184,211
Other income	25	1,636,938	1,540,561
Interest earned	26	29,645,356	14,180,346
Total Revenue		402,163,352	345,836,221
Expenses			
Employee Related Cost	27	91,547,012	81,791,173
Remuneration of councillors	28	8,019,574	8,143,684
Depreciation and amortisation expense	29	192,450,464	192,383,706
Finance costs	30	1,879,220	2,850,122
Bad Debts	31	57,536,194	56,657,462
Repairs and maintenance		15,262,740	11,955,766
Bulk purchases	32	44,284,271	30,341,173
Contracted services	33	726,892	-
Grants and subsidies paid	34	7,894,262	13,384,929
General Expenses	35	42,354,085	47,134,617
Total Expenses		461,954,714	444,642,632
Deficit for the year		(59,791,362)	(98,806,411)

Setsoto Local Municipality
Statement of Changes in Net Assets

	Housing development fund	Accumulated surplus	Total net assets
Opening balance as previously reported	271,810	287,420,955	287,692,765
Adjustments			
Revaluation of assets and correction of prior period	-	2,293,314,034	2,293,314,034
Balance at 01 July 2010 as restated	271,810	2,580,734,989	2,581,006,799
Surplus/(deficit) for the period	-	(98,806,411)	(98,806,411)
Correction of prior period errors(See Note 54)	(513)	(189,586,330)	(189,586,843)
Transfer to Accumulated Surplus	(271,297)	271,297	-
Total changes	(271,810)	(288,121,444)	(288,393,254)
Opening balance as previously reported	-	2,292,613,545	2,292,613,545
Adjustments			
Correction of errors	-	(37,630,418)	(37,630,418)
Balance at 01 July 2011 as restated	-	2,254,983,127	2,254,983,127
Surplus/(deficit) for the period	-	(59,791,362)	(59,791,362)
Total changes	-	(59,791,362)	(59,791,362)
Balance at 30 June 2012	-	2,195,191,765	2,195,191,765
Note(s)	21		

Setsoto Local Municipality

Cash Flow Statement

		2012	Restated 2011
	Note(s)		
Cash flows from operating activities			
Receipts			
Property Rates		21,950,954	23,679,681
Sale of goods and services		97,987,468	95,427,271
Grants		240,191,168	198,301,938
Interest income received		2,365,950	2,344,364
Other receipts		2,186,130	15,220,663
		<u>364,681,670</u>	<u>334,973,917</u>
Payments			
Employee costs		(99,566,586)	(89,885,406)
Finance costs		(1,879,220)	(2,850,122)
Suppliers		(158,976,120)	(182,184,989)
		<u>(260,421,926)</u>	<u>(274,920,517)</u>
Net cash flows from operating activities	36	<u>104,259,744</u>	<u>60,053,400</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	11	(72,026,273)	(67,220,886)
Purchase of other intangible assets	12	(95,653)	(678,394)
Proceeds from Call Investments		9,181,901	4,336,032
Proceeds from Non Current receivables		3,573	3,573
Net cash flows from investing activities		<u>(62,936,452)</u>	<u>(63,559,675)</u>
Cash flows from financing activities			
Repayment of current portion of borrowings		(3,325,158)	(3,074,650)
Finance lease payments		(4,265,631)	(3,827,067)
Net cash flows from financing activities		<u>(7,590,789)</u>	<u>(6,901,717)</u>
Net increase/(decrease) in cash and cash equivalents		33,732,503	(10,407,992)
Cash and cash equivalents at the beginning of the year		(26,941,392)	(16,533,400)
Cash and cash equivalents at the end of the year	9	<u>6,791,111</u>	<u>(26,941,392)</u>

Setso Local Municipality

Accounting Policies

1. Presentation of Financial Statements

The financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

These financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied, are explained in the relevant policies below. These accounting policies are consistent with the previous period, unless explicitly stated.

1.1 Significant judgements and sources of estimation uncertainty

In preparing the financial statements, management is required to make estimates and assumptions that affect the amounts represented in the financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the financial statements. Significant judgements include:

Trade receivables / Held to maturity investments and/or loans and receivables

The municipality assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumptions may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors.

Setsoto Local Municipality

Accounting Policies

1.1 Significant judgements and sources of estimation uncertainty (continued)

Provisions

Provisions were raised and management determined an estimate based on the information available. Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at reporting date, and are discounted to the present value where the time value effect is material. Additional disclosure of these estimates of provisions are included in note 19 - Provisions.

Useful lives and residual values

The municipality's management determines the estimated useful lives and related depreciation charges for property, plant and equipment as well as the intangible assets. The municipality re-assess the useful lives and the residual value on an annual basis, considering the conditional and use of the individual assets. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 46.

Effective interest rate

The municipality uses an appropriate interest rate, taking into account guidance provided in the accounting standards, and applying professional judgement to the specific circumstances, to discount future cash flows.

Appropriate adjustments have been made to compensate for the effect of deferred settlement terms that material impact on the fair value of the financial instruments, revenue and expenses at initial recognition. The adjustments require a degree of estimation around the discount rate and periods used.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

GRAP 24: Presentation of budget information

The municipality is required to present a comparison of the budget amounts for which it is held publicly accountable and actual. The comparison of budget and actual amounts present separately for each level of legislative oversight:

- the approved and final budget amounts;
- the actual amounts on a comparable basis; and

1.2 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

Setsoto Local Municipality

Accounting Policies

1.2 Investment property (continued)

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired at no cost or for a nominal cost, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. Costs include material, labour directly attributable and borrowing costs. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value by equal installments over the useful life of the property, which is as follows:

Item	Useful life
Investment Property - land	indefinite
Investment Property - buildings	5 - 30 years

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

1.3 Property, plant and equipment

Items of property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality;
- and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at date of acquisition.

Setsoto Local Municipality

Accounting Policies

1.3 Property, plant and equipment (continued)

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Estimated useful life
Land	
• Land	Infinite
Buildings	
• Buildings	30 years
Infrastructure assets	
• Electricity	20 - 30 years
• Roads	10 - 30 years
• Water	15 - 20 years
Community assets	
• Buildings	30 years
• Recreational facilities	20 years
• Security measures	3 - 5 years
Other assets	
• Office equipment	3 - 7 years
• Furniture and fittings	7 - 10 years
• Motor vehicles	5 - 7 years

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

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Accounting Policies

1.3 Property, plant and equipment (continued)

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

1.4 Heritage assets

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality's operations that is shown as a single item for the purpose of disclosure in the financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

An inalienable item is an asset that an municipality is required by law or otherwise to retain indefinitely and cannot be disposed of without consent.

Recoverable amount is the higher of a cash-generating asset's net selling price and its value in use.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Value in use of a cash-generating asset is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

Value in use of a non-cash-generating asset is the present value of the asset's remaining service potential.

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Accounting Policies

1.4 Heritage assets (continued)

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

If a heritage asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to a revaluation surplus. However, the increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit.

If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in surplus or deficit. However, the decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

Impairment

The municipality assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

1.5 Intangible assets

An asset is identified as an intangible asset when it:

- is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the municipality or from other rights and obligations.

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Accounting Policies

1.5 Intangible assets (continued)

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

An intangible asset acquired at no or nominal cost, the cost shall be its fair value as at the date of acquisition.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software, other	3 -5 years

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

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Accounting Policies

1.6 Financial instruments

Classification

The municipality classifies financial assets and financial liabilities into the following categories:

- Financial assets at fair value through surplus or deficit - held for trading
- Held-to-maturity investment
- Loans and receivables
- Available-for-sale financial assets
- Financial liabilities measured at amortised cost

Classification depends on the purpose for which the financial instruments were obtained or incurred and takes place at initial recognition. Classification is only re-assessed when contractual terms of the financial instrument have been changed.

Initial recognition and measurement

Financial instruments are recognised initially when the municipality becomes a party to the contractual provisions of the instruments.

The municipality classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available-for-sale financial assets.

For financial instruments which are not at fair value through surplus or deficit, transaction costs are included in the initial measurement of the instrument.

Transaction costs on financial instruments at fair value through surplus or deficit are recognised in surplus or deficit.

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Accounting Policies

1.6 Financial instruments (continued)

Subsequent measurement

Financial instruments at fair value through surplus or deficit are subsequently measured at fair value, with gains and losses arising from changes in fair value being included in surplus or deficit for the period.

Net gains or losses on the financial instruments at fair value through surplus or deficit dividends and interest.

Dividend income is recognised in surplus or deficit as part of other income when the municipality's right to receive payment is established.

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Held-to-maturity investments are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Available-for-sale financial assets are subsequently measured at fair value. This excludes equity investments for which a fair value is not determinable, which are measured at cost less accumulated impairment losses.

Gains and losses arising from changes in fair value are recognised in equity until the asset is disposed of or determined to be impaired. Interest on available-for-sale financial assets calculated using the effective interest method is recognised in surplus or deficit as part of other income. Dividends received on available-for-sale equity instruments are recognised in surplus or deficit as part of other income when the municipality's right to receive payment is established.

Changes in fair value of available-for-sale financial assets denominated in a foreign currency are analysed between translation differences resulting from changes in amortised cost and other changes in the carrying amount. Translation differences on monetary items are recognised in surplus or deficit, while translation differences on non-monetary items are recognised in equity.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

Financial assets and financial liabilities are offset and the net amount reported on the financial position where there is a current legally enforceable right to set-off the recognised amount and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Fair value determination

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the municipality establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

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Accounting Policies

1.6 Financial instruments (continued)

Impairment of financial assets

At each end of the reporting period the municipality assesses all financial assets, other than those at fair value through surplus or deficit, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the municipality, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator of impairment. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in surplus or deficit - is removed from equity as a reclassification adjustment and recognised in surplus or deficit.

Impairment losses are recognised in surplus or deficit.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Impairment losses are also not subsequently reversed for available-for-sale equity investments which are held at cost because fair value was not determinable.

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

Consumer deposits

Consumer deposits consists of deposits due by consumers upon opening of service accounts.

Consumer deposits are measured at initial recognition at fair value. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Consumer deposits are classified as loans and receivables.

Receivables from exchange transactions

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Trade and other receivables are classified as loans and receivables.

Payables from exchange transactions

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

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Accounting Policies

1.6 Financial instruments (continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value. Cash and cash equivalents are classified as loans and receivables.

Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the municipality's accounting policy for borrowing costs.

Derivatives

Derivative financial instruments, which are not designated as hedging instruments, consisting of foreign exchange contracts and interest rate swaps, are initially measured at fair value on the contract date, and are re-measured to fair value at subsequent reporting dates.

Derivatives embedded in other financial instruments or other non-financial host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealised gains or losses reported in surplus or deficit.

Changes in the fair value of derivative financial instruments are recognised in surplus or deficit as they arise.

Derivatives are classified as financial assets at fair value through surplus or deficit - held for trading.

Held to maturity

These financial assets are initially measured at fair value plus direct transaction costs.

At subsequent reporting dates these are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts. An impairment loss is recognised in surplus or deficit when there is objective evidence that the asset is impaired, and is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Financial assets that the municipality has the positive intention and ability to hold to maturity are classified as held to maturity.

Financial liabilities and equity instruments

Financial liabilities are classified according to the substance of contractual agreements entered into. Trade and other payables are stated at their nominal value. Equity instruments are recorded at the amount received, net of direct issue costs.

Gains and losses

A gain or loss arising from a change in a financial asset or financial liability is recognised as follows:

- A gain or loss on a financial asset or financial liability classified as at fair value through surplus or deficit is recognised in surplus or deficit;
- A gain or loss on an available-for-sale financial asset is recognised directly in net assets, through the statement of changes in net assets, until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in net assets is recognised in surplus or deficit; and
- For financial assets and financial liabilities carried at amortised cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, and through the amortisation process.

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Accounting Policies

1.6 Financial instruments (continued)

Derecognition

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the municipality retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the municipality has transferred its rights to receive cash flows from the asset and either
 - has transferred substantially all the risks and rewards of the asset, or
 - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the municipality has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the municipality's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the municipality could be required to repay.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in surplus or deficit.

Impairment of financial assets

The municipality assesses at each statement of financial position date whether a financial asset or group of financial assets is impaired.

The amount of the loss shall be recognised in surplus or deficit. The municipality first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

1.7 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

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Accounting Policies

1.7 Leases (continued)

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.8 Inventories

Inventories are initially measured at cost except where inventories are acquired at no cost, or for nominal consideration, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

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Accounting Policies

1.8 Inventories (continued)

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.9 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are still in progress.

1.10 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to state plans, retirement benefit schemes are dealt with as defined contribution plans where the entity's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

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Accounting Policies

1.10 Employee benefits (continued)

Other post retirement obligations

The entity provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The entity also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

1.11 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
 - the activity/operating unit or part of a activity/operating unit concerned;
 - the principal locations affected;
 - the location, function, and approximate number of employees who will be compensated for services being terminated;
 - the expenditures that will be undertaken; and
 - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

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Accounting Policies

1.11 Provisions and contingencies (continued)

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised.

1.12 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

When uncertainty arises about the collectability of an amount already included in revenue, the uncollectable amount, or the amount in respect of which recovery has ceased to be probable, is recognised as an expense, rather than as an adjustment of the amount of revenue originally recognised.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Setsoto Local Municipality

Accounting Policies

1.12 Revenue from exchange transactions (continued)

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Revenue from the rental of facilities and equipment is recognised on a straight-lined basis over the term of the lease agreement.

Interest and dividends

Revenue arising from the use by others of entity assets yielding interest and dividends is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Dividends, or their equivalents are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

Penalty interest is levied on unpaid amounts each month. This revenue is recognised when leviable in terms of law.

1.13 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by a municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arises when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, a municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

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Accounting Policies

1.13 Revenue from non-exchange transactions (continued)

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Assessment Rates

Revenue from rates, including collection charges and penalty interest, is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the entity,
 - the amount of the revenue can be measured reliably, and
 - there has been compliance with the relevant legal requirements.
- Changes to property values during a reporting period, which are referred to as "interims", are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Setsoto Local Municipality

Accounting Policies

1.13 Revenue from non-exchange transactions (continued)

Fines

Revenue from the issuing of fines is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the entity, and
- the amount of the revenue can be measured reliably.
- There are two types of fines: spot fines and summonses. Municipalities will usually issue both types of fines. There is uncertainty regarding the probability of the flow of economic benefits or service potential in respect of spot fines as these fines are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is enforceable.
- In respect of summonses the public prosecutor can decide whether to waive the made for the revenue amount collected from spot fines and summonses based on past experience of amounts collected. Where a reliable estimate cannot be made of revenue from summonses, the revenue from summonses should be recognised when the public prosecutor pays over to the entity the cash actually collected on summonses issued.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

1.14 Borrowing costs

The capitalisation of borrowing costs commences when all the following conditions have been met:

- expenditures for the asset have been incurred;
- borrowing costs have been incurred; and
- activities that are necessary to prepare the asset for its intended use or sale are undertaken.

1.15 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.16 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.17 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.18 Irregular expenditure

Irregular expenditure as defined in section 1 of the MFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

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Accounting Policies

1.18 Irregular expenditure (continued)

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.19 Use of estimates

The preparation of financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in the relevant sections of the financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.20 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP

1.21 Housing development fund

The Housing Development Fund was established in terms of the Housing Act, (Act No. 107 of 1997). Loans from national and provincial government used to finance housing selling schemes undertaken by the municipality were extinguished on 1 April 1998 and transferred to a Housing Development Fund. Housing selling schemes, both complete and in progress as at 1 April 1998, were also transferred to the Housing Development Fund. In terms of the Housing Act, all proceeds from housing developments, which include rental income and sales of houses, must be paid into the Housing Development Fund. Monies standing to the credit of the Housing Development Fund can be used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

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Accounting Policies

1.22 Revaluation reserve

The surplus arising from the revaluation of property, plant and equipment is credited to a non-distributable reserve. The revaluation surplus is realised as revalued buildings are depreciated, through a transfer from the revaluation reserve to the accumulated surplus/deficit. On disposal, the net revaluation surplus is transferred to the accumulated surplus/deficit while gains or losses on disposal, based on revalued amounts, are credited or charged to the statement of financial performance.

1.23 Investments

Where the carrying amount of an investment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the statement of financial performance.

1.24 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

Government grants can be in the form of grants to acquire or construct fixed assets (capital grants), grants for the furtherance of national and provincial government policy objectives and general grants to subsidise the cost incurred by entities in rendering services. Capital grants and general grants for the furtherance of government policy objectives are usually restricted revenue in that stipulations are imposed on their use.

Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the entity,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

An entity needs to assess the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants should only be recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue should only be recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. For example, equitable share grants per the Division of Revenue Act where the period of use of such funds is stated, should be recognised on a time proportion basis, i.e. over the stated period. Where there is no restriction on the period, such revenue should be recognised on receipt or when the Act becomes effective, whichever is earlier.

In certain circumstances government will only remit grants on a re-imbursement basis. Revenue should therefore be recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with and not when the grant is received.

Other Grants and Donations

Donations shall be measured at the fair value of the consideration received or receivable when the amount of the revenue can be measured reliably.

Other grants and donations shall be recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the entity,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

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Accounting Policies

1.25 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

1.26 Segmental information

Segmental information on property, plant and equipment, as well as income and expenditure, is set out in Appendices C and D, based on the International Government Financial Statistics classifications and the budget formats prescribed by National Treasury. The municipality operates solely in its area of jurisdiction as determined by the Demarcation Board.

Segment information is prepared in conformity with the accounting policies applied for preparing and presenting the financial statements.

1.27 Capital Commitments

Items are classified as commitments where the Municipality commits itself to future transactions that will normally result in the outflow of resources.

Capital commitments are not recognised in the statement of financial position as a liability but are included in the disclosure notes in the following cases:

- Approved and contracted commitments, where the expenditure has been approved and the contract has been awarded at the reporting date, where disclosure is required by a specific standard of GRAP.
- Approved but not yet contracted commitments, where the expenditure has been approved and the contract has yet to be awarded or is awaiting finalisation at the reporting date.
- Items are classified as commitments where the municipality commits itself to future transactions that will normally result in the outflow of resources.
- Contracts that are entered into before the reporting date, but goods and services have not yet been received are disclosed in the disclosure notes to the financial statements.
- Other commitments for contracts are be non-cancellable or only cancellable at significant cost contracts should relate to something other than the business of the municipality. Additional text

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Notes to the Annual Financial Statements for the year ended 30 June 2012

2012

Restated
2011

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Notes to the Annual Financial Statements for the year ended 30 June 2012

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• IFRIC 14: IAS 19 - The Limit on Defined Benefit Asset, Minimum Funding Requirements - Amendment - Prepayments of minimum funding requirements	01 January 2011	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• IFRS 7: Financial Instruments: Disclosures - Amendments to disclosures	01 January 2011	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• GRAP 103: Heritage Assets	01 April 2012	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• IGRAP 1: Interpretation of GRAP: Applying the Probability Test on Initial Recognition of Exchange Revenue	01 April 2010	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• IGRAP 2: Changes in Existing Decommissioning, Restoration and Similar Liabilities	01 April 2011	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• IGRAP 3: Determining Whether an Arrangement Contains a Lease	01 April 2011	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• IGRAP 4: Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	01 April 2011	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• IGRAP 5: Applying the Restatement Approach under the Standard of GRAP on Financial Reporting in Hyperinflationary Economies	01 April 2011	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• IGRAP 6: Loyalty Programmes	01 April 2011	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• IGRAP 7: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	01 April 2011	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• IGRAP 8: Agreements for the Construction of Assets from Exchange Transactions	01 April 2011	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• IGRAP 9: Distributions of Non-cash Assets to Owners	01 April 2011	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• IGRAP 10: Assets Received from Customers	01 April 2011	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

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Notes to the Annual Financial Statements for the year ended 30 June 2012

2. New standards and interpretations (continued)

• IGRAP 13: Operating Leases – Incentives	01 April 2011	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• IGRAP 14: Evaluating the Substance of Transactions Involving the Legal Form of a Lease	01 April 2011	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• IGRAP 15: Revenue – Barter Transactions Involving Advertising Services	01 April 2011	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• GRAP 1 (as revised 2010): Presentation of Financial Statements	01 April 2011	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• GRAP 2 (as revised 2010): Cash Flow Statements	01 April 2011	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• GRAP 3 (as revised 2010): Accounting policies, Changes in Accounting Estimates and Errors	01 April 2011	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• GRAP 9 (as revised 2010): Revenue from Exchange Transactions	01 April 2011	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• GRAP 10 (as revised 2010): Financial Reporting in Hyperinflationary Economies	01 April 2011	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• GRAP 11 (as revised 2010): Construction Contracts	01 April 2011	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• GRAP 12 (as revised 2010): Inventories	01 April 2011	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• GRAP 13 (as revised 2010): Leases	01 April 2011	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• GRAP 14 (as revised 2010): Events After the Reporting Date	01 April 2011	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• GRAP 16 (as revised 2010): Investment Property	01 April 2011	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• GRAP 17 (as revised 2010): Property, Plant and Equipment	01 April 2011	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• GRAP 19 (as revised 2010): Provisions, Contingent Liabilities and Contingent Assets	01 April 2011	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• GRAP 100 (as revised 2010): Non-current Assets Held for Sale and Discontinued Operations	01 April 2011	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

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Notes to the Annual Financial Statements for the year ended 30 June 2012

2. New standards and interpretations (continued)

• IGRAP 11: Consolidation – Special purpose entities	01 April 2014	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• IGRAP 12: Jointly controlled entities – Non-monetary contributions by ventures	01 April 2014	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• GRAP 101: Agriculture	01 April 2009	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• GRAP 102: Intangible Assets	01 April 2009	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

2.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2012 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 18: Segment Reporting	no effective date determined	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• GRAP 24: Presentation of Budget Information in the Financial Statements	01 April 2012	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• GRAP 21: Impairment of non-cash-generating assets	01 April 2012	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• GRAP 26: Impairment of cash-generating assets	01 April 2012	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• GRAP 25: Employee benefits	01 April 2013	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• GRAP 104: Financial Instruments	01 April 2012	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• GRAP 105: Transfers of functions between entities under common control	no effective date determined	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• GRAP 106: Transfers of functions between entities not under common control	no effective date determined	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• GRAP 107: Mergers	no effective date determined	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

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Notes to the Annual Financial Statements for the year ended 30 June 2012

2. New standards and interpretations (continued)

• GRAP 20: Related parties	no effective date determined	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• IGRAP 11: Consolidation – Special purpose entities	01 April 2014	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• IGRAP 12: Jointly controlled entities – Non-monetary contributions by ventures	01 April 2014	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements	01 April 2014	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• GRAP 8 (as revised 2010): Interests in Joint Ventures	01 April 2014	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• GRAP 1 (as revised 2012): Presentation of Financial Statements	01 April 2013	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• GRAP 3 (as revised 2012): Accounting Policies, Change in Accounting Estimates and Errors	01 April 2013	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• GRAP 7 (as revised 2012): Investments in Associates	01 April 2013	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• GRAP 9 (as revised 2012): Revenue from Exchange Transactions	01 April 2013	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• GRAP 12 (as revised 2012): Inventories	01 April 2013	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• GRAP 13 (as revised 2012): Leases	01 April 2013	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• GRAP 16 (as revised 2012): Investment Property	01 April 2013	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• GRAP 17 (as revised 2012): Property, Plant and Equipment	01 April 2013	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• GRAP 27 (as revised 2012): Agriculture (Replaces GRAP 101)	01 April 2013	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• GRAP 31 (as revised 2012): Intangible Assets (Replaces GRAP 102)	01 April 2013	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• IGRAP16: Intangible assets website costs	01 April 2013	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

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Notes to the Annual Financial Statements for the year ended 30 June 2012

2. New standards and interpretations (continued)

The aggregate impact of the initial application of the statements and interpretations on the municipality's financial statements is expected as presented in the following notes:

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Notes to the Annual Financial Statements for the year ended 30 June 2012

	2012	2011
3. Inventories		
Consumable stores	58,532	71,065
Maintenance materials	1,174,348	1,313,068
Water	383,353	360,243
	1,616,233	1,744,376

No inventories were write-down during the prior and current year..

The cost of inventories recognised as an expense during the period is R1,167,384.96 (2011 - R744,285.29).

Inventory pledged as security

No inventory was pledged as security for the year under review.

4. Investments

At fair value through profit or loss - held for trading

Listed shares	572,429	172,560
Sanlam Shares		
Unlisted shares	495,421	106,309
OVK / EFC Shares		
	1,067,850	278,869

Held to maturity

Investments	888,844	10,859,726
Fixed Deposits		

Non-current assets

At fair value through profit or loss - held for trading	1,067,850	278,869
Held to maturity	888,844	852,845
	1,956,694	1,131,714

Current assets

Held to maturity	-	10,006,881
	1,956,694	11,138,595

5. Trade and Other Receivables from Exchange Transactions

Gross balances

Electricity	35,541,915	28,718,156
Water	89,889,453	92,959,244
Sewerage	68,040,480	58,244,218
Refuse	94,694,215	80,926,665
Other	23,770,615	19,749,473
	311,936,678	280,597,756

Setsoto Local Municipality

Notes to the Annual Financial Statements for the year ended 30 June 2012

	2012	2011
5. Trade and Other Receivables from Exchange Transactions (continued)		
Less: Provision for debt impairment		
Electricity	(19,467,933)	(8,757,858)
Water	(74,270,417)	(80,449,170)
Sewerage	(55,690,882)	(49,885,667)
Refuse	(75,932,222)	(70,620,247)
Other (specify)	(20,066,990)	(11,262,471)
	(245,428,444)	(220,975,413)
Net balance		
Electricity	16,073,982	19,960,298
Water	15,619,036	12,510,074
Sewerage	12,349,598	8,358,551
Refuse	18,761,993	10,306,418
Other (specify)	3,703,625	8,487,002
	66,508,234	59,622,343
Electricity		
Current (0 -30 days)	14,934,883	6,002,243
31 - 60 days	4,012,949	1,553,960
61 - 90 days	2,235,166	1,690,075
91 - 120 days	917,490	6,117,216
121 - 365 days	13,441,426	7,212,846
Provision for bad debts	(19,467,932)	(8,757,858)
	16,073,982	19,960,298
Water		
Current (0 -30 days)	4,684,033	3,777,356
31 - 60 days	2,112,513	1,338,258
61 - 90 days	2,269,148	1,287,590
91 - 120 days	2,240,666	79,065,193
121 - 365 days	78,583,093	7,490,847
Provision for bad debts	(74,270,417)	(80,449,170)
	15,619,036	12,510,074
Sewerage		
Current (0 -30 days)	1,530,661	1,652,902
31 - 60 days	1,448,071	1,421,954
61 - 90 days	1,433,475	908,790
91 - 120 days	1,512,329	48,311,722
121 - 365 days	62,115,944	5,948,850
Provision for bad debts	(55,690,882)	(49,885,667)
	12,349,598	8,358,551
Refuse		
Current (0 -30 days)	1,967,618	1,955,445
31 - 60 days	1,815,527	1,141,475
61 - 90 days	1,864,262	1,117,422
91 - 120 days	1,960,621	68,574,869
121 - 365 days	87,086,187	8,137,448
Provision for bad debts	(75,932,222)	(70,620,241)
	18,761,993	10,306,418

Setsoto Local Municipality

Notes to the Annual Financial Statements for the year ended 30 June 2012

	2012	2011
5. Trade and Other Receivables from Exchange Transactions (continued)		
Other		
Current (0 -30 days)	248,323	225,664
31 - 60 days	255,449	73,130
61 - 90 days	236,971	53,620
91 - 120 days	243,552	1,688,659
121 - 365 days	22,786,320	17,708,401
Provision for bad debts	(20,066,990)	(11,262,472)
	3,703,625	8,487,002
Summary of Trade and Other receivables by customer classification		
Consumers/Households		
Current (0 -30 days)	26,578,876	8,262,669
31 - 60 days	6,952,798	5,075,614
61 - 90 days	8,005,186	4,813,202
91 - 120 days	6,800,492	209,216,218
121 - 365 days	263,144,190	48,074,783
	311,481,542	275,442,486
Industrial / Commercial / Other		
Current (0 -30 days)	1,078,834	537,532
31 - 60 days	3,127,823	439,390
61 - 90 days	446,686	503,903
91 - 120 days	511,986	4,270,831
121 - 365 days	5,790,616	1,523,930
	10,955,945	7,275,586
National and provincial government		
Current (0 -30 days)	1,821,855	461,260
31 - 60 days	1,906,177	498,892
61 - 90 days	1,375,659	191,481
91 - 120 days	604,996	4,017,570
121 - 365 days	5,857,507	770,055
	11,566,194	5,939,258
Total		
Current (0 -30 days)	23,365,518	13,613,610
31 - 60 days	9,644,509	5,528,777
61 - 90 days	8,039,022	5,057,497
91 - 120 days	6,874,658	203,757,659
121 - 365 days	264,012,970	46,498,392
	311,936,677	274,455,935
Less: Provision for debt impairment	(245,428,443)	(220,975,408)
	66,508,234	53,480,527
Provision for debt impairment		
Total	(245,428,444)	(220,975,413)

Setsoto Local Municipality

Notes to the Annual Financial Statements for the year ended 30 June 2012

	2012	2011
5. Trade and Other Receivables from Exchange Transactions (continued)		
Reconciliation of debt impairment provision		
Balance at beginning of the year	(220,975,637)	(169,012,591)
Contributions to provision	(48,682,995)	(53,603,409)
Debt impairment written off against provision	19,106,140	1,640,587
Correction of impairment between services	5,124,048	-
	(245,428,444)	(220,975,413)
6. Other receivables from non-exchange transactions		
Government grants and subsidies	-	233,236
LED contributions and subsidies	-	1,284,602
District contributions and subsidies	-	18,602,805
Sundry Debtors	2,385,567	1,823,098
Prepayments (Eskom and Fuel Deposits)	1,000,839	228,890
	3,386,406	22,172,631
Consumer receivables from non-exchange transactions		
Rates	27,054,861	19,705,693
Less: Provision for debt impairment	(24,994,833)	(9,096,063)
	2,060,028	10,609,630
Rates - Ageing		
Current (0 -30 days)	2,583,090	894,049
31 - 60 days	2,342,290	494,856
61 - 90 days	1,788,509	457,788
91 - 120 days	1,042,816	13,977,259
121 - 365 days	19,298,156	3,881,517
Provision for bad debts	(24,994,833)	(9,095,839)
	2,060,028	10,609,630
Reconciliation of debt impairment provision		
Balance at beginning of the year	(9,095,839)	(12,104,115)
Contributions to provision	(10,774,946)	(3,054,053)
Correction of impairment between services	(5,124,048)	-
Debt impairment written off against provision	-	6,062,329
	(24,994,833)	(9,095,839)
7. VAT receivable		
VAT receivable	41,163,561	17,731,372
The Municipality is registered on the payment basis., therefore VAT is paid over to the South African Revenue Services (SARS) only once payment is received from debtors.		
8. Non Current Receivables		
Prior to the implementation of the MFMA, Council grant a long term loan to Ficksburg Squash Club for the building of a club house and squash courts. This loans is repayable to council on agreed terms and conditions.		
Non Current Receivables		
Current portion from Receivables	3,573	3,573
Non-current portion from Receivables	4,866	8,439
	8,439	12,012

Setsoto Local Municipality

Notes to the Annual Financial Statements for the year ended 30 June 2012

2012 2011

9. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	8,988	242,381
Bank balances	2,254,288	5,423
Short-term deposits	4,527,835	4,052,602
Bank overdraft	-	(31,241,798)
	6,791,111	(26,941,392)
Current assets	6,791,111	4,300,406
Current liabilities	-	(31,241,798)
	6,791,111	(26,941,392)

The economic entity had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2012	30 June 2011	30 June 2010	30 June 2012	30 June 2011	30 June 2010
FNB BANK - Current Account - 620 480 92647	941,019	4,053,603	(7,311,215)	2,254,288	(31,241,798)	(20,189,598)
FNB BANK - Business Money Market -621 517 83563	190,747	56,171	14,364,857	190,747	56,171	14,364,857
FNB BANK - Savings Account -620 490 46205	801,209	4,051,716	3,646,367	801,209	4,051,716	3,646,367
FNB BANK - Call Account -631 054 0465	3,535,879	9,947,862	-	3,535,879	9,947,862	-
Total	5,468,854	18,109,352	10,700,009	6,782,123	(17,186,049)	(2,178,374)

10. Investment property

	2012			2011		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	21,752,834	(7,117,386)	14,635,448	21,752,834	(5,693,909)	16,058,925

Setsoto Local Municipality

Notes to the Annual Financial Statements for the year ended 30 June 2012

Figures in Rand

10. Investment property (continued)

Reconciliation of investment property - 2012

	Opening balance	Depreciation	Total
Investment property	16,058,925	(1,423,477)	14,635,448

Reconciliation of investment property - 2011

	Opening balance	Depreciation	Total
Investment property	17,482,402	(1,423,477)	16,058,925

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

There were no contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

11. Property, plant and equipment

	2012			2011		
	Cost / Valuation	Accumulated depreciation and impairment losses	Carrying value	Cost / Valuation	Accumulated depreciation and impairment losses	Carrying value
Land and Buildings	73,657,842	-	73,657,842	73,657,842	-	73,657,842
Leasehold property	15,358,668	(11,642,314)	3,716,354	15,358,668	(8,721,738)	6,636,930
Infrastructure	2,857,036,536	(884,462,658)	1,972,573,878	2,793,859,678	(707,541,728)	2,086,317,950
Community	142,951,938	(45,503,069)	97,448,869	137,132,689	(36,402,455)	100,730,234
Other property, plant and equipment	19,991,487	(13,506,369)	6,485,118	17,883,663	(11,862,624)	6,021,039
Landfill Site	922,342	(42,059)	880,283	-	-	-
Heritage	3,616,110	(1,995,314)	1,620,796	3,616,110	(1,596,251)	2,019,859
Total	3,113,534,923	(957,151,783)	2,156,383,140	3,041,508,650	(766,124,796)	2,275,383,854

Setsoto Local Municipality

Notes to the Annual Financial Statements for the year ended 30 June 2012

Figures in Rand

11. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2012

	Opening balance	Additions	Work in Progress	Depreciation	Total
Land and Buildings	73,657,842	-	-	-	73,657,842
Leasehold property	6,636,930	-	-	(2,920,576)	3,716,354
Infrastructure	2,086,317,950	15,687,624	47,489,234	(176,920,930)	1,972,573,878
Community	100,730,234	5,819,249	-	(9,100,614)	97,448,869
Other property, plant and equipment	6,021,039	2,107,824	-	(1,643,745)	6,485,118
Landfill Site	-	922,342	-	(42,059)	880,283
Heritage	2,019,859	-	-	(399,063)	1,620,796
	2,275,383,854	24,537,039	47,489,234	(191,026,987)	2,156,383,140

Setsoto Local Municipality

Notes to the Annual Financial Statements for the year ended 30 June 2012

Figures in Rand

11. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2011

	Opening balance	Additions	Work in Progress	Depreciation	Total
Land and Buildings	73,047,842	610,000	-	-	73,657,842
Leasehold property	9,590,546	-	-	(2,953,616)	6,636,930
Infrastructure	2,201,116,626	-	62,086,756	(176,885,432)	2,086,317,950
Community	109,830,848	-	-	(9,100,614)	100,730,234
Other property, plant and equipment	3,118,413	4,524,130	-	(1,621,504)	6,021,039
Heritage	2,418,922	-	-	(399,063)	2,019,859
	2,399,123,197	5,134,130	62,086,756	(190,960,229)	2,275,383,854

Pledged as security

No Property, Plant and Equipment was pledged as security.

Assets subject to finance lease (Net carrying amount)

Leasehold property	3,716,354	6,636,930
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A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

12. Intangible assets

	2012			2011		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	824,047	(185,099)	638,948	728,394	(76,893)	651,501

Setsoto Local Municipality

Notes to the Annual Financial Statements for the year ended 30 June 2012

Figures in Rand

12. Intangible assets (continued)

Reconciliation of intangible assets - 2012

	Opening balance	Additions	Amortisation	Total
Computer software, other	651,501	95,653	(108,206)	638,948

Reconciliation of intangible assets - 2011

	Opening balance	Additions	Amortisation	Total
Computer software, other	23,333	678,394	(50,226)	651,501

Pledged as security

No intangible assets are pledged as security.

Details of valuation

The effective date of the revaluations was 30 June 2010.

The valuation was based on open market value for existing use.

These assumptions are based on current market conditions.

Setsoto Local Municipality

Notes to the Annual Financial Statements for the year ended 30 June 2012

	2012	2011
13. Current Portion of Borrowings		
Measured at amortised cost		
Financial liabilities	8,092,102	11,417,260
Refer to Appendix A for further details on the borrowings.		
Non-current liabilities		
At amortised cost	7,722,733	8,075,240
Current liabilities		
At amortised cost	369,369	3,342,020
	8,092,102	11,417,260
14. Finance lease Liability		
Minimum lease payments due		
- within one year	1,878,996	4,712,091
- in second to fifth year inclusive	744,149	2,812,819
	2,623,145	7,524,910
less: future finance charges (in the second to fifth year)	(463,865)	(832,625)
Present value of minimum lease payments	2,159,280	6,692,285
Present value of minimum lease payments due		
- within one year	1,729,946	4,255,768
- in second to fifth year inclusive	429,334	2,436,517
	2,159,280	6,692,285
Non-current liabilities	697,560	2,437,369
Current liabilities	1,729,946	4,255,768
	2,427,506	6,693,137
Assets held under finance leases are vehicles, computers, faxes, and photo copy machines.		
The average lease term is 3 to 5 years and the average effective borrowing rate is 11.08-% (2011: 11.70-%).		
15. Trade Payables and other payables from exchange transactions		
Trade payables	23,214,801	2,708,216
Payments received in advance	6,744,651	6,141,816
Staff leave accrual	5,128,491	6,582,076
Bonus	2,091,547	2,074,198
Deposits received	2,000	3,200
Other payables	5,024,317	11,285,211
Salary Control	1,110,963	(3,175,867)
National Treasury - Repayment of MIG grants used for operations	7,800,000	-
	51,116,770	25,618,850
16. VAT payable		
VAT payable	14,112,547	16,927,633

Setsoto Local Municipality

Notes to the Annual Financial Statements for the year ended 30 June 2012

	2012	2011
17. Consumer deposits		
Electricity	2,142,164	1,968,869
Other	26,034	28,182
	2,168,198	1,997,051
Guarantees held in lieu of electricity and other deposits	-	-

18. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

MIG Grant	16,925,219	28,062,562
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Movement during the year

Balance at the beginning of the year	28,062,562	52,092,951
Received during the year	62,963,000	54,301,000
Income recognition during the year	(74,100,343)	(78,331,389)
	16,925,219	28,062,562

Non-current liabilities	-	-
Current liabilities	16,925,219	28,062,562
	16,925,219	28,062,562

The Council concluded with the National Treasury to repay an amount of R 11 million of unspent conditional grants (MIG) to the National Revenue Fund which will be payable within a period of twelve months. During the current financial year an amount of R4,000 000.00 was deducted from the Equitable Share in respect of the abovementioned agreement.

Setsoto Local Municipality

Notes to the Annual Financial Statements for the year ended 30 June 2012

Figures in Rand

19. Provisions

Setsoto Local Municipality

Notes to the Annual Financial Statements for the year ended 30 June 2012

Figures in Rand

19. Provisions (continued)

Reconciliation of provisions - 2012

	Opening Balance	Additions	Utilised during the year	Total
Environmental rehabilitation (long term portion)	2,412,070	739,566	(76,708)	3,074,928
Long service bonus (short term portion)	896,175	-	(402,532)	493,643
Long service bonus (long term portion)	1,545,564	-	-	1,545,564
	4,853,809	739,566	(479,240)	5,114,135

Reconciliation of provisions - 2011

	Opening Balance	Additions	Utilised during the year	Total
Environmental rehabilitation	1,755,494	739,566	(82,990)	2,412,070
Long service bonus (short term portion)	760,007	136,168	-	896,175
Long service bonus (long term portion)	1,600,804	-	(55,240)	1,545,564
	4,116,305	875,734	(138,230)	4,853,809

Non-current provisions	4,620,492	3,957,634
Current provisions	493,643	896,175
	5,114,135	4,853,809

Long Service Bonus

A long-service award is granted to municipal employees after the completion of fixed periods of continuous service with the Municipality. The provision represents an estimation of the awards to which employees in the service of the Municipality may become entitled to in future. Management is of the opinion according their fair value calculation that the provision made in respect of Long service bonus and Employee benefit are sufficient.

Setso Local Municipality

Notes to the Annual Financial Statements for the year ended 30 June 2012

Figures in Rand

19. Provisions (continued)

Environmental Rehabilitation (Landfill Sites)

In terms of the Mineral and Petroleum Resources Development Act, 2002 (Act No 28 of 2002), it is required from the municipality to execute the environmental management program to restore the landfill sites at Ficksburg and Senekal. Provision has been made for this cost based on actual cost calculations received. The value of the provision is based on the expected future cost to rehabilitate the various sites discounted back to the balance sheet date at the cost of capital, which is currently 10%. The cost of such property includes the initial estimate of the costs of rehabilitating the land and restoring the site on which it is located, the obligation for which a municipality incurs as a consequence of having used the property during a particular period for landfill purposes. The Municipality estimates the useful lives and makes assumptions as to the useful lives of these assets, which influence the provision for future costs.

The following assumptions were used to calculate the provision:

- Discount rate of 9% (2011 : 10%);
- Total area expected to be rehabilitated: 120 000 square metres;
- Rate per square metre: R117 escalating every year by inflation rate;
- Total area to be rehabilitated can be reconciled to the different sites as follows:

Ficksburg	40 000
Senekal	40 000
Marquard	20 000
Clocolan	20 000

Each of the landfill sites have a different lifespan for rehabilitation ranging from 5 years to 10 years and are best estimates provided for by the respective Manager waste management, parks and properties.

Ficksburg	5 Years
Senekal	10 Years
Marquard	5 Years
Clocolan	5 Years

20. Revaluation reserve

This reserve forms part of accumulated surplus/(deficit) and was accordingly transferred to the accumulated surplus.

Opening balance	-	28,471,476
Consolidated with Accumulated Surplus	-	(28,471,476)
	-	-

Setsoto Local Municipality

Notes to the Annual Financial Statements for the year ended 30 June 2012

	2012	2011
21. Other NDR		
This reserve forms part of accumulated surplus/(deficit).		
Housing Development Fund	-	271,297
Transfer to Accumulated Reserve	-	(271,297)
	-	-
22. Property rates		
Rates received		
Residential / Commercial	12,124,119	14,807,432
State	16,353,868	8,906,753
Income forgone	(18,323)	(34,504)
	28,459,664	23,679,681
23. Service charges		
Sale of electricity	45,331,417	42,262,616
Sale of water	27,262,336	22,360,537
Sewerage and sanitation charges	13,412,147	14,282,748
Refuse removal	15,387,900	16,355,977
Other service charges	287,234	165,392
	101,681,034	95,427,270

Setsoto Local Municipality

Notes to the Annual Financial Statements for the year ended 30 June 2012

	2012	2011
24. Government grants and subsidies		
Equitable share	147,875,000	133,873,936
MIG grant	74,100,343	73,266,644
DBSA Grant	2,064,454	-
EPWP Grant	2,316,000	-
Municipal systems improvement grant (MSIG)	790,000	750,000
Financial Management Grant (FMG)	1,450,000	1,200,000
Police, Roads and Transport Grant	3,075,980	-
Department of Water Affairs Grant	7,869,391	-
COGTA Grant	650,000	-
	240,191,168	209,090,580

Equitable Share

Current year receipts	147,875,000	133,873,936
Conditions met - transferred to revenue	(147,875,000)	(133,873,936)
	-	-

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

All registered indigents receive a monthly subsidy of R 214 (2011: R 179), which is funded from the grant.

MIG Grant

Balance unspent at beginning of year	28,062,562	48,978,206
Current year receipts	62,963,000	52,351,000
Conditions met - transferred to revenue	(74,100,343)	(73,266,644)
	16,925,219	28,062,562

Conditions still to be met - remain liabilities (see note 18)

In terms of the MFMA Circular No.48, all conditional allocations (excluding interest earned thereon) that at year-end are not utilised must revert back to National Revenue Fund unless the relevant receiving officer can prove to the satisfaction of the National Treasury that the unspent allocation is committed to identifiable projects. The entity reports at year-end all unspent conditional grants were committed to identifiable projects.

The grant is used to supplement municipal capital budgets to eradicate backlogs in municipal infrastructure utilised in providing basic services for the benefit of poor households. The grants was used to construct roads and sewerage infrastructure as part of the upgrading of informal settlement areas.

DBSA Grant

Current-year receipts	2,064,454	-
Conditions met - transferred to revenue	(2,064,454)	-
	-	-

Conditions still to be met - remain liabilities (see note 18)

This grant was used to compile masterplans for Roads and Stormwater, Electricity Network, Water network and Sewer Network.

EPWP Grant

Other	2,316,000	-
Conditions met - transferred to revenue	(2,316,000)	-
	-	-

Conditions still to be met - remain liabilities (see note 18)

This grant is used in respect of job creation projects and programmes.

Setsoto Local Municipality

Notes to the Annual Financial Statements for the year ended 30 June 2012

2012 2011

24. Government grants and subsidies (continued)

Municipal systems improvement grant (MSIG)

Current-year receipts	790,000	750,000
Conditions met - transferred to revenue	(790,000)	(750,000)
	-	-

Conditions still to be met - remain liabilities (see note 18)

The purpose of the grant is to assist municipalities in building in-house capacity to perform their functions and stabilise institutional and governance systems as required in the Local Government and the Municipal Systems Act.

Financial Management Grant (FMG)

Current-year receipts	1,450,000	1,200,000
Conditions met - transferred to revenue	(1,450,000)	(1,200,000)
	-	-

Conditions still to be met - remain liabilities (see note 18)

The purpose of the grant is to promote and support reforms to financial management and the implementation of the MFMA.

Police, Roads and Transport Grant

Current-year receipts	3,075,980	-
Conditions met - transferred to revenue	(3,075,980)	-
	-	-

Conditions still to be met - remain liabilities (see note 18)

Intervention from Province during the unrest period in Setsoto Local Municipality.

Department of Water Affairs Grant

Current-year receipts	7,869,391	-
Conditions met - transferred to revenue	(7,869,391)	-
	-	-

Conditions still to be met - remain liabilities (see note 18)

This grant was used to address water loss control and assisting with water shortages in Clocolan, Marquard and Senekal during drought period.

COGTA Grant

Current-year receipts	650,000	-
Conditions met - transferred to revenue	(650,000)	-
	-	-

Conditions still to be met - remain liabilities (see note 18)

Intervention from Province during the unrest period in Setsoto Local Municipality to buy vehicles.

Changes in level of government grants

Based on the allocations set out in the Division of Revenue Act, no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

Setsoto Local Municipality

Notes to the Annual Financial Statements for the year ended 30 June 2012

	2012	2011
25. Other income		
Other Income	488,460	206,409
Skills Development Claims	529,583	488,657
Commission: Escom	183,424	551,973
Cementery Fees	243,654	271,449
Commission	191,817	22,073
	1,636,938	1,540,561
26. Interest earned		
Interest revenue		
Banks	2,364,950	2,344,364
Interest charged on trade and other receivables	27,280,406	11,835,982
	29,645,356	14,180,346

Setsoto Local Municipality

Notes to the Annual Financial Statements for the year ended 30 June 2012

	2012	2011
27. Employee related costs		
Basic	55,907,317	52,560,534
Medical contributions	5,599,583	4,770,125
UIF contributions	703,445	630,179
SDL	827,351	710,161
Pension contributions	9,741,567	7,955,318
Travel, motor car, accommodation, subsistence and other allowances	5,364,794	6,555,298
Overtime payments	3,980,295	3,073,742
Housing benefits and allowances	-	201,009
Bonus	4,150,733	2,532,071
Casual wages	5,064,627	555,763
Group insurance	-	133,928
Cellphone allowance	207,300	1,702,285
Long-service awards	-	410,760
	91,547,012	81,791,173

Included in the remuneration above are the following:

Remuneration of Municipal Manager

Annual Remuneration	219,784	828,039
Contributions to UIF, Medical and Pension Funds	98,819	167,175
Travel, motor car, accommodation, subsistence and other allowances	78,172	68,471
Other	88,301	-
	485,076	1,063,685

The Municipal Manager tender his resignation and ended his service 31 October 2011.

Remuneration of Municipal Manager

Annual Remuneration	288,535	-
Contributions to UIF, Medical and Pension Funds	3,613	-
Travel, motor car, accommodation, subsistence and other allowances	78,562	-
	370,710	-

The Municipal Manager was appointed on 1 April 2012, while he was acting in the capacity from 1 November 2011 and during his term of acting he was remunerated by Cogta.

Remuneration of Chief Financial Officer

Annual Remuneration	148,670	626,262
Contributions to UIF, Medical and Pension Funds	69,237	178,898
Travel, motor car, accommodation, subsistence and other allowances	50,400	164,416
Other	130,201	-
	398,508	969,576

The CFO was suspended during the year under review and resigned from the position on 30 September 2011.

Remuneration of Chief Financial Officer (Acting)

Travel, motor car, accommodation, subsistence and other allowances	210,124	-
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During the year under review, a manager in financial department was appointed as Acting C F O.

Remuneration of Corporate Services Director

Annual Remuneration	159,750	664,304
Contributions to UIF, Medical and Pension Funds	74,617	204,682

Setsoto Local Municipality

Notes to the Annual Financial Statements for the year ended 30 June 2012

	2012	2011
27. Employee related costs (continued)		
Travel, motor car, accommodation, subsistence and other allowances	41,583	116,948
Other	113,926	-
	389,876	985,934

The relevant director was on suspension and resigned on 30 September 2011

Remuneration of Corporate Services Director

Annual Remuneration	136,342	-
Contributions to UIF, Medical and Pension Funds	25,337	-
Travel, motor car, accommodation, subsistence and other allowances	18,000	-
	179,679	-

The director was appointed on 1 April 2012

Remuneration of Community and Economic Services Director

Annual Remuneration	169,784	627,405
Contributions to UIF, Medical and Pension Funds	70,909	194,037
Travel, motor car, accommodation, subsistence and other allowances	54,136	151,503
Other	126,982	-
	421,811	972,945

The Director resigned on 30 September 2012.

Remuneration of Community and Economic Services Director

Annual Remuneration	94,930	-
Contributions to UIF, Medical and Pension Funds	23,405	-
Travel, motor car, accommodation, subsistence and other allowances	18,000	-
	136,335	-

The Director was appointed from 1 May 2012.

Remuneration of the Corporate Services Director (Acting)

Travel, motor car, accommodation, subsistence and other allowances	405,048	-
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During the year under review, a manager in corporate services was appointed as Acting Director.

28. Remuneration of councillors

Mayor	632,385	786,722
Speaker	508,356	-
Councillors	5,275,188	7,356,962
Executive Committee Members	1,603,645	-
	8,019,574	8,143,684

In-kind benefits

The Mayor and Speaker are full-time. Each is provided with an office and secretarial support at the cost of the Council.

The Mayor has use of a Council owned vehicle for official duties.

Setsoto Local Municipality

Notes to the Annual Financial Statements for the year ended 30 June 2012

	2012	2011
29. Depreciation and amortisation		
Property, plant and equipment	192,450,464	192,333,480
Intangible assets	-	50,226
	192,450,464	192,383,706
30. Finance costs		
Bank	133,670	122,929
Current borrowings	1,745,550	2,727,193
	1,879,220	2,850,122
31. Debt impairment		
Contributions to debt impairment provision	57,536,194	56,657,462
32. Bulk purchases		
Electricity	44,284,271	30,341,173
33. Contracted services		
Specialist Services	726,892	-
34. Grants and subsidies paid		
Subsidies		
Distitutional help	7,894,262	8,605,529
Grants and donations	-	9,656
Free electricity - Eskom	-	4,769,744
	7,894,262	13,384,929

Setso Local Municipality

Notes to the Annual Financial Statements for the year ended 30 June 2012

	2012	2011
35. General expenses		
Advertising	393,517	398,661
Disaster management	67,856	93,683
Auditors remuneration	3,611,574	3,111,857
Bank charges	120,314	137,022
Billing charges	66,118	63,618
Chemicals	3,035,429	4,128,048
Cleaning	29,664	209,455
Town planning	44,622	385,273
Computer expenses	174,027	501,872
Conferences and delegations	16,000	74,034
Analysis	86,095	39,019
Consulting and professional fees	7,522,584	7,457,505
Consumables	16,901	142,299
Industrial council levy	30,577	31,976
Departmental administration cost	-	(1)
Departmental consumption	1,574,889	1,087,314
Entertainment	358,180	586,572
Ward committee expenses	3,543	400,466
Streetlight electricity consumption	1,419,559	4,856,411
Indigent and pauper burials	-	101,491
Fuel and oil	3,365,351	2,729,011
Skills development levy	612,995	758,060
Insurance	6,275,697	3,808,501
Lease rentals on operating lease	1,740,549	1,665,011
Levies paid	1,132	2,137,574
Youth expenditure	322,409	857,664
Casualty insurance	436,971	129,448
Other expenses	222,393	1,773,498
Postage and courier	999,918	999,228
Printing and stationery	1,207,102	1,095,928
Publicity	458,920	1,198,840
Protective clothing	43,154	80,455
License fees	967,236	817,340
Security (Guarding of municipal property)	64,285	55,933
Subscriptions and membership fees	11,401	10,695
Telephone and fax	4,233,050	1,162,192
Valuation costs	2,128	294,130
Training	584,502	1,678,752
Travel and subsistence	1,936,872	1,901,176
IDP establishment	296,571	174,606
	42,354,085	47,134,617

Setsoto Local Municipality

Notes to the Annual Financial Statements for the year ended 30 June 2012

	2012	2011
36. Cash generated from operations		
Deficit	(59,791,362)	(98,806,411)
Adjustments for:		
Depreciation and amortisation	192,450,464	192,383,706
Debt impairment	57,536,194	56,657,462
Movements in provisions	260,326	737,504
Adjust VAT on provision for bad debts as per exception 66 from Auditor General	(25,754,221)	-
Vat adjustment ito 2011 audit report	-	10,901,695
Other non-cash items	(11,242,347)	(1,401,794)
District contributions and subsidies written off	(18,602,805)	-
LED contributions and subsidies written off	(1,284,602)	-
VAT on purchase of assets corrected	(9,198,422)	-
Government grants and subsidies written off	(233,236)	-
Overpayment of contractors	-	802,581
Write off reserves	(28,742,773)	-
Changes in working capital:		
Inventories	128,143	(462,495)
Other receivables from non-exchange transactions	27,335,827	(160,265,387)
Consumer debtors	(6,885,891)	85,540,609
Trade Payables and other payables from exchange transactions	25,497,920	5,286,999
VAT receivable / payable (Amend as appropriate)	(23,432,189)	(15,295,932)
Taxes and transfers payable (non exchange)	(2,815,086)	4,859,141
Unspent conditional grants and receipts	(11,137,343)	(20,917,644)
Consumer deposits	171,147	33,366
	104,259,744	60,053,400

37. Capital commitments

37.1 Commitments in respect of capital expenditure

Approved and contracted for

• Infrastructure	113,578,630	74,244,587
• Community	56,408,056	-
• Other	-	-
	169,986,686	74,244,587

Approved but not yet contracted for

• Infrastructure	-	4,380,940
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This expenditure will be financed from

• Government grants	169,986,686	78,625,527
• Own resources	-	-
	169,986,686	78,625,527

38. Related parties

In terms of the MFMA, the municipality may not grant loans to its councillors, management, staff and public with effect from 1 July 2004. There are no loans to councillors, management, staff and the public.

Related party transactions

Purchases from (sales to) related parties

E R B Marketing (Website design and maintenance)	180,000	180,000
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The IT Specialist have close family relations with the management of ERB Marketing that maintains the web site of council.

Setso Local Municipality

Notes to the Annual Financial Statements for the year ended 30 June 2012

2012 2011

39. Comparative figures

Certain comparative figures have been reclassified.

Expenditure related to district municipality commitments has been clasified previously as grants and been netted against unspent MIG grants.

The effects of the reclassification are as follows:

Statement of financial position

Decrease in Current Portion of Unspent conditional grants and receipts (District grant)	-	(19,887,407)
Increase in Other receivables from non-exchange transactions	-	19,887,407

40. Unauthorised expenditure

Reconciliation of unauthorised expenditure

Opening balance	22,679,492	75,929,807
Unauthorised expenditure - current year	149,967,318	21,543,944
Approval by Council or Condoned	-	(74,794,259)
Transfer to receivables for recovery	-	-
Unauthorised expenditure awaiting authorisation	-	-
	172,646,810	22,679,492

Details of Unauthorised expenditure

Incident of Unauthorised Expenditure

2007/2008 Exceed total expenditure - Condoned by Council	-	(2,599,032)
2009/2010 Exceed total expenditure - Condoned by Council	-	(72,195,227)
2009/2010 Credit card payment without documentation	-	40,000
2009/2010 Unbudgeted Capital expenditure	-	1,095,548
2010/2011 Overspending Employee costs, Bad debts, Collection costs - Awaiting condonation	-	21,543,944
2011/2012 Purchase of Equipment during emergency situation	1,798,320	-
2011/2012 Requiring of services during protest action	1,480,552	-
2011/2012 Exceed total expenditure	146,688,446	-
	149,967,318	(52,114,767)

Setsoto Local Municipality

Notes to the Annual Financial Statements for the year ended 30 June 2012

2012 2011

41. Fruitless and wasteful expenditure

Reconciliation of fruitless and wasteful expenditure

Opening balance	15,408,353	1,347,142
Fruitless and wasteful expenditure - current year	210,653	14,061,211
Condoned or written off by Council	-	-
To be recovered - contingent asset	-	-
Fruitless and wasteful expenditure awaiting condonement	-	-
	15,619,006	15,408,353

Details of fruitless and wasteful expenditure

2006/2007 Legal fees - Former Senekal TLC Councillors	-	610,424
2009/2010 Payment made to W Vries	-	42,225
2009/2010 Advance payment made to Vic Computers	-	60,840
2006 to 2011 Payments made to Biofresh personnel wages	-	8,676,165
2009 to 2011 Penalties and interest paid	-	1,021,485
2010.2011 VAT incorrectly claimed on PPE	-	626,920
Identified in the 2011 Audit report	-	4,370,294
2011/2012 Penalties and interest paid	210,653	-
	210,653	15,408,353

Setsoto Local Municipality

Notes to the Annual Financial Statements for the year ended 30 June 2012

	2012	2011
42. Irregular expenditure		
Opening balance	34,068,439	29,674,745
Irregular Expenditure - current year	44,514,337	4,393,694
Amounts condoned or written off by Council	(5,965,055)	-
Transfer to receivables for recovery - not condoned	-	-
Amounts recouped from Councilors	(414,552)	-
Irregular expenditure awaiting condonement	-	-
	72,203,169	34,068,439

Details of irregular expenditure - Current year

Current year	-	2,000,000
Eskom payments	-	2,362,690
Payment to Councillors in excess of limits	-	31,004
Intervention from Cogta/Premiers office during protest action in Ficksburg. Suctioning of sewer manholes to reduce sewer spillages. Due to urgency only one quote received, thus the deviation from the SCM policy.	3,939,255	-
Intervention from Cogta/DWA during water crisis in Marquard and Ficksburg. Due to urgency only one quote received, thus the deviation from the SCM policy.	1,921,956	-
Expenditure item identified were the SCM process and procedures was not followed	34,475,486	-
Long-term lease not approved by Council i.t.o MFMA	2,624,205	-
Expenditure item identified were the SCM process and procedures was not followed : Mabalane Seobe Inc	1,553,435	-
	44,514,337	4,393,694

Details of irregular expenditure - Prior years

Councillors paid in excess of the upper limits	2007/08	660,906
Councillors paid in excess of the upper limits	2008/09	448,519
Councillors paid in excess of the upper limits	2009/10	113,279
Unspent conditional grants in terms of DoRA	2007/08	13,502,314
Maxprof expenses paid for the recovery of VAT	2008/09	1,319,322
Non availability of Tender Documents	2008/09	842,016
Long-term lease not approved by Council i.t.o MFMA	2008/09	2,814,169
Payments where SCM procedures were not followed	2009/10	2,709,761
Long-term lease not approved BY Council i.t.o MFMA	2009/10	2,734,586
Operational expenses paid from MIG Funds	2009/10	4,529,873
		29,674,745

43. Auditors' remuneration

Fees	3,611,574	3,111,857
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44. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year subscription / fee	612,995	435,185
Amount paid - current year	(612,995)	(435,185)
	-	-

Setsoto Local Municipality

Notes to the Annual Financial Statements for the year ended 30 June 2012

	2012	2011
44. Additional disclosure in terms of Municipal Finance Management Act (continued)		
Reticulation losses		
Estimated electricity losses suffered by the municipality for the year under review are as follows:		
Estimated electricity losses included distribution to townships with unmetered electricity.		
Estimated losses	20,853,869	6,368,567
Estimated water losses suffered by the municipality for the year under review is as follows:		
Estimated water losses included distribution to townships with unmetered water.		
Estimated water losses	13,106,733	13,798,074
Audit fees		
Current year subscription / fee	3,624,137	3,111,857
Amount paid - current year	(3,624,137)	(3,111,857)
	-	-
PAYE and UIF		
Current year subscription / fee	10,927,445	8,468,466
Amount paid - current year	(10,927,445)	(8,468,466)
	-	-
Pension and Medical Aid Deductions		
Current year subscription / fee	23,563,297	24,453,103
Amount paid - current year	(23,563,297)	(24,453,103)
	-	-
VAT		
VAT receivable	41,163,561	17,731,372
VAT output payables and VAT input receivables are shown in note 14 and 6 respectively.		
All VAT returns have been submitted by the due date throughout the year.		

Setsoto Local Municipality

Notes to the Annual Financial Statements for the year ended 30 June 2012

2012 2011

44. Additional disclosure in terms of Municipal Finance Management Act (continued)

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2012:

30 June 2012	Outstanding less than 90 days	Outstanding more than 90 days	Total
Councillor M Mthimkhulu	520	5,991	6,511
Councillor M Thamae	695	6,753	7,448
Councillor S Mohala	604	3,837	4,441
Councillor P Mavaleliso	724	4,100	4,824
Councillor T Muso	421	265	686
Councillor M Mahlangu	541	744	1,285
Councillor S Fuso	1,008	19,600	20,608
Councillor M Raboroko	740	11,146	11,886
Councillor S Setai	658	4,953	5,611
	5,911	57,389	63,300

30 June 2011	Outstanding less than 90 days	Outstanding more than 90 days	Total
Councillor T.B Jakobo	532	4,370	4,902
Councillor M. Malebo	482	1,401	1,883
Councillor M. Malebo	778	7,390	8,168
Councillor T.D Zim	374	1,035	1,409
Councillor T.D Zim	440	6,995	7,435
	2,606	21,191	23,797

During the year the following Councillors' had arrear accounts outstanding for more than 90 days.

30 June 2012	Highest outstanding amount	Aging (in days)
Councillor M Mthimkhulu	6,511	1,116
Councillor M Thamae	7,448	919
Councillor S Mohala	4,441	669
Councillor P Mavaleliso	4,825	600
Councillor T Muso	687	150
Councillor M Mahlangu	1,286	180
Councillor S Fuso	20,608	1,839
Councillor M Raboroko	11,886	1,461
Councillor S Setai	5,611	775
	63,303	7,709

30 June 2011	Highest outstanding amount	Aging (in days)
Councillor T.B Jakobo	4,902	693
Councillor M. Malebo	1,883	244
Councillor M. Malebo	8,168	885
Councillor T.D Zim	1,409	230
Councillor T.D Zim	7,434	939
	23,796	2,991

Setsotho Local Municipality

Notes to the Annual Financial Statements for the year ended 30 June 2012

2012	2011
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45. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the Council and includes a note to the financial statements.

Busses and gym equipment were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to the accounting officer who considered them and subsequently approved the deviation from the normal supply chain management regulations.

46. Retirement Benefit Information

46.1 Defined Contribution Plan

The following are defined contribution plans;

- National Fund for Municipal Workers,
- SAMWU Provident Fund,
- Free State Provident Fund and
- SALA.

The contributions have been expensed during the year.

An amount of R 8,308,852 (2011: R 7,529,091) was contributed by Council in respect of Councillors and Employees retirement funding. These contributions have been expensed and are included in employee related costs for the year.

46.2 Defined Benefit Plan

The following is the defined benefit plans Free State Pension Fund; These are not treated as defined benefit plans as defined by IAS19, but are accounted for as defined contribution plans. This is in line with the exemption in IAS 19 par. 30 which states that where information required for proper defined plan accounting is not available in respect of multi-employer and state plans, these should be accounted for as defined contribution plans. The municipality has been unsuccessful in obtaining the necessary information to support proper defined benefit plan due to restrictions imposed by the multi-employer plan. It is therefore deemed impracticable to obtain this information at a suitable level detail.

An amount of R 428,944 (2011: R 426,228) was contributed by Council in respect of Councillors and Employees retirement funding. These contributions have been expensed and are included in employee related costs for the year.

47. In-kind donations and assistance

The Municipality did not receive any in-kind donations and assistance during the financial year.

48. Events after the reporting date

There are no significant matters to report after reporting date.

49. Risk management

Maximum credit risk exposure

Credit risk consists mainly of cash deposits, cash equivalents, and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the economic entity. The economic entity has adopted a policy of only dealing with creditworthy counterparties to the extent possible and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults.

Setso Local Municipality

Notes to the Annual Financial Statements for the year ended 30 June 2012

2012 2011

49. Risk management (continued)

With the exception of trade receivables, the economic entity only transacts with entities that are rated the equivalent of investment grade and above. This information is supplied by independent rating agencies where available and, if not available, the economic entity uses other publicly available financial information and its own trading records to rate its major customers.

The economic entity's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee annually.

Potential concentrations of credit risk consist mainly of investments, trade receivables, other receivables, short-term investment deposits and cash and cash equivalents.

The credit exposure to any single counterparty is managed by setting transaction or exposure limits, which are included in the economic entity's Investment Policy.

Trade receivables comprise of a large number of ratepayers, dispersed across different industries and geographical areas. Ongoing credit evaluations are performed on the financial condition of these customers.

Trade receivables are presented net of an allowance for impairment and where appropriate, credit limits are adjusted.

In the case of customers whose accounts become in arrears, it is endeavoured to collect such accounts by levying penalty charges, issuing demands for payment, restricting service and handing customers over for collection, whichever procedure is applicable in terms of Council's Credit Control and Debt Collection Policy.

No credit limits were exceeded during the reporting period, and management does not expect any deficits from non-performance by these counterparties.

Financial assets which expose the economic entity to credit risk at year end were as follows:

Financial instrument	2012	2011
Cash and cash equivalents	6,791,111	4,300,406
Investments	-	10,006,881
Trade and other receivables from exchange transactions	66,508,234	59,622,343

These balances represent the maximum exposure to credit risk.

The economic entity is exposed to a number of guarantees for the overdraft facilities of economic entities and for guarantees issued in favour of the creditors of A (Pty) Ltd. Refer to note for additional details.

[Discuss any changes from previous year in respect of objectives, policies and processes for managing risks and in methods to measure the risks]

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash Flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

The table below analyses the municipality's financial liabilities into relevant maturity groupings based on the remaining period at the Statement of Financial Position to contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows:

At 30 June 2012	Not later than one month	Later than one month and not later than three months	Later than three months and not later than one year	Later than one year and not later than five years
Borrowings	916,958	-	689,680	9,636,167
Gross finance lease obligations	300,453	528,819	1,049,724	744,149
At 30 June 2011	Not later than one month	Later than one month and not later than three months	Later than three months and not later than one year	Later than one year and not later than five years
Borrowings	221,692	443,385	3,959,203	9,834,617
Gross finance lease obligations	405,542	811,083	3,495,466	2,812,819

Setsoto Local Municipality

Notes to the Annual Financial Statements for the year ended 30 June 2012

	2012	2011
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49. Risk management (continued)

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the economic entity's revenue or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

There has been no change, since the previous financial year, to the economic entity's exposure to market risks or the manner in which it manages and measures the risk.

Market risk consists of the following risks:

Foreign currency risk

The economic entity does not enter into significant foreign currency transactions and has limited exposure to foreign currency risk.

Interest rate risk

The municipality's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the group to cash flow interest rate risk. Borrowings issued at fixed rates expose the municipality to fair value interest rate risk. Municipality policy is to maintain approximately 60% of its borrowings in fixed instruments.

At year end, financial instruments exposed to interest rate risk were as follows:

- Call deposits
- Notice deposits
- Long term annuity
- Development Bank of Southern Africa loan
- FNB Overdraft

50. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality.

The municipality is currently experiencing financial difficulties. Indicators of the financial problems are:

- The significant increase in accounts payable of R 25,5 million (2011: R 10,44 million);
- The municipality incurred a deficit during the year of R 59,8 million (2011: R 98,8 million);
- The creditors are not paid within 30 days as required by the MFMA;
- Debt collection period has not improved during the current year;
- The gross outstanding debtors increased from R 280,6 million in 2011 to R 311,9 million as at 30 June 2012;
- The provision for doubtful debts have been estimated at R 245,4 million (2011: R 220,96 million). This equates to approximately 78,6% of gross outstanding debtors (2011: 78,6%).

At 30 June 2012 the municipality's current liabilities amounted to R 86,9 million (2011: R 112,3 million), whilst the current assets amounted to R 121,5 million (2011: R 126,2 million).

Previously disadvantaged areas are charged a basic tariff on water as opposed to the consumption tariff, thus resulting in a possible loss of income for the municipality. The above challenges did not impair the municipality to deliver services to the community as mandated by the Constitution of the Republic of South Africa.

The municipality shall therefore continue to honour its financial obligations and strive to maintain its assets, and will therefore continue to exist within the foreseeable future, as a going concern.

The municipality is also exploring alternative options to improve its financial position.

Setsoto Local Municipality

Notes to the Annual Financial Statements for the year ended 30 June 2012

2012 2011

51. Section 106

During the financial year ending 30 June 2011 there was a community protest over service delivery which lead to invoking of section 106 of the Municipal Systems Act (No. 32 of 2000) by COGTA. A commission of enquiry was instituted and the report of the findings was tabled before Council meeting.

52. Prior period errors

Property, Plant, and Equipment was previously not componentized by the municipality and as a result carrying values were corrected during the asset register clear up exercise.

The correction of the error(s) results in adjustments as follows:

Statement of financial position

Property, plant and equipment	-	2,064,870,300
Opening Accumulated Surplus or Deficit	-	(2,064,870,300)

Intangible assets were not disclosed previously.

The correction of the error(s) results in adjustments as follows:

Statement of financial position

Intangible Assets	-	701,727
Accumulated Amortisation	-	(50,226)
Accumulated Surplus	-	(701,727)
	-	(50,226)

Statement of Financial Performance

Amortisation	-	50,226
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Investment Property assets were not disclosed previously.

The correction of the error(s) results in adjustments as follows:

Statement of financial position

Investment property	-	21,752,834
Accumulated Amortisation	-	(5,693,909)
Accumulated Surplus	-	(17,482,402)
	-	(1,423,477)

Statement of Financial Performance

Amortisation	-	1,423,477
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During the current year the revaluation reserve and the housing development fund was transferred to the accumulated surplus.

The correction of the error(s) results in adjustments as follows:

Statement of financial position

Revaluation Reserve	-	28,471,476
Housing Development Fund	-	271,297
Accumulated Surplus	-	(28,742,773)
	-	-

Setsoto Local Municipality

Notes to the Annual Financial Statements for the year ended 30 June 2012

2012 2011

52. Prior period errors (continued)

In terms of paragraph 22 of the previous years audit report staff leave accrual that was overprovided was corrected.

The correction of the error(s) results in adjustments as follows:

Statement of financial position

Leave Reserve	-	434,972
Accumulated Surplus	-	(434,972)
	-	-

Receivables of R802,581.00 was created in terms of paragraph 43 of the previous years audit.

The correction of the error(s) results in adjustments as follows:

Statement of financial position

Other receivables	-	(802,581)
Accumulated Surplus	-	802,581
	-	-

Unclaimed VAT on Capital expenditure was taken into account in terms of paragraph 40 of the previous years audit.

The correction of the error(s) results in adjustments as follows:

Statement of financial position

VAT: Input (Capital)	-	5,317,185
Accumulated Surplus	-	(5,317,185)
	-	-

Correct the duplicate VAT amount R5,584,150.00 in terms of paragraph 39 of the previous years audit.

The correction of the error(s) results in adjustments as follows:

Statement of financial position

VAT: Output VAT Paid	-	(5,584,510)
Accumulated Surplus	-	5,584,510
	-	-

Expenditure related to district municipality commitments has previously been classified as conditional grants and receipts and was now reclassified as other receivables from non-exchange transactions. This amount was subsequently also written off against the accumulated surplus.

The correction of the error(s) results in adjustments as follows:

Statement of financial position

Other receivables from non-exchange transactions	-	19,887,407
Accumulated Surplus	-	19,887,407

Setsoto Local Municipality

Notes to the Annual Financial Statements for the year ended 30 June 2012

	2012	2011
52. Prior period errors (continued)		
Other receivables from non-exchange transactions	-	(19,887,407)
Current portion of Unspent Conditional Grants and Receipts	-	(19,887,407)
	-	-

Rates and taxes was reclassified as Other receivables from non-exchange transactions.

The correction of the error(s) results in adjustments as follows:

Statement of financial position

Other receivables from non-exchange transactions	-	10,609,630
Trade and other receivables from exchange transactions	-	(10,609,630)
	-	-

During the preparation of the 2012 Annual Financial Statement certain amounts were reclassified.

The correction of the error(s) results in adjustments as follows:

Statement of financial position

Accrued leave (paragraph 22 of 2011 audit report)	-	434,974
---	---	---------

Statement of Financial Performance

Other income	-	1,110,546
Sale of land	-	(1,184,211)
Employee related cost	-	(361,309)
	-	(434,974)

During the preparation of the 2012 Annual Financial Statement the income from MIG Grants was adjusted.

The correction of the error(s) results in adjustments as follows:

Statement of financial position

Accumulated Surplus	-	2,483,820
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Statement of Financial Performance

Government grants and subsidies - MIG	-	(2,483,820)
	-	-
	-	(2,483,820)

53. Rental of facilities and equipment

Rental of facilities	130,661	435,891
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Setsoto Local Municipality

Notes to the Annual Financial Statements for the year ended 30 June 2012

Figures in Rand

54. Statement of comparative and actual information

2012

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Final budget	Actual outcome	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Financial Performance									
Property rates	-	23,746,932	23,746,932	-	23,746,932	28,459,664	4,712,732	120 %	DIV/0 %
Service charges	-	99,586,918	99,586,918	-	99,586,918	101,681,034	2,094,116	102 %	DIV/0 %
Investment revenue	-	20,708,450	20,708,450	-	20,708,450	29,645,356	8,936,906	143 %	DIV/0 %
Transfers recognised - operational	-	152,115,000	152,115,000	-	152,115,000	240,191,168	88,076,168	158 %	DIV/0 %
Other own revenue	-	19,140,249	19,140,249	-	19,140,249	2,186,130	(16,954,119)	11 %	DIV/0 %
Total revenue (excluding capital transfers and contributions)	-	315,297,549	315,297,549	-	315,297,549	402,163,352	86,865,803	128 %	DIV/0 %
Employee costs	-	(88,960,246)	(88,960,246)	-	(88,960,246)	(91,547,012)	(2,586,766)	103 %	DIV/0 %
Remuneration of councillors	-	(9,317,466)	(9,317,466)	-	(9,317,466)	(8,019,574)	1,297,892	86 %	DIV/0 %
Debt impairment	-	-	-	-	-	(57,536,194)	(57,536,194)	DIV/0 %	DIV/0 %
Depreciation and asset impairment	-	(24,334,576)	(24,334,576)	-	(24,334,576)	(192,450,464)	(168,115,888)	791 %	DIV/0 %
Finance charges	-	(3,507,906)	(3,507,906)	-	(3,507,906)	(1,879,220)	1,628,686	54 %	DIV/0 %
Materials and bulk purchases	-	(43,658,345)	(43,658,345)	-	(43,658,345)	(44,284,271)	(625,926)	101 %	DIV/0 %
Transfers and grants	-	(24,518,732)	(24,518,732)	-	(24,518,732)	(7,894,262)	16,624,470	32 %	DIV/0 %
Other expenditure	-	(120,968,997)	(120,968,997)	-	(120,968,997)	(58,343,717)	62,625,280	48 %	DIV/0 %
Total expenditure	-	(315,266,268)	(315,266,268)	-	(315,266,268)	(461,954,714)	(146,688,446)	147 %	DIV/0 %
Surplus/(Deficit)	-	31,281	31,281	-	31,281	(59,791,362)	(59,822,643)	(191,143)%	DIV/0 %

Setsoto Local Municipality

Notes to the Annual Financial Statements for the year ended 30 June 2012

Figures in Rand

54. Statement of comparative and actual information (continued)

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Final budget	Actual outcome	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	75,605,000	75,605,000	151,210,000	-	151,210,000	-	(151,210,000)	- %	- %
Surplus (Deficit) after capital transfers and contributions	75,605,000	75,636,281	151,241,281	-	151,241,281	(59,791,362)	(211,032,643)	(40)%	(79)%
Surplus/(Deficit) for the year	75,605,000	75,636,281	151,241,281	-	151,241,281	(59,791,362)	(211,032,643)	(40)%	(79)%

Setsoto Local Municipality

Notes to the Annual Financial Statements for the year ended 30 June 2012

Figures in Rand

54. Statement of comparative and actual information (continued)

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Final budget	Actual outcome	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Capital expenditure and funds sources									
Total capital expenditure	11,058,400	(11,058,400)	-	-	-	922,342	922,342	DIV/0 %	8 %
Sources of capital funds									
Public contributions and donations	70,874,000	70,874,000	141,748,000	-	141,748,000	-	(141,748,000)	- %	- %
Cash flows									
Net cash from (used) operating	-	-	-		-	104,259,744	104,259,744	DIV/0 %	DIV/0 %
Net cash from (used) investing	-	-	-		-	(62,936,452)	(62,936,452)	DIV/0 %	DIV/0 %
Net cash from (used) financing	-	-	-		-	(7,590,789)	(7,590,789)	DIV/0 %	DIV/0 %
Net increase/(decrease) in cash and cash equivalents	-	-	-		-	33,732,503	33,732,503	DIV/0 %	DIV/0 %
Cash and cash equivalents at the beginning of the year	-	-	-		-	(26,941,392)	(26,941,392)	DIV/0 %	DIV/0 %
Cash and cash equivalents at year end	-	-	-		-	6,791,111	(6,791,111)	DIV/0 %	DIV/0 %

Setsoto Local Municipality

Notes to the Annual Financial Statements for the year ended 30 June 2012

2012

2011

54. Statement of comparative and actual information (continued)

2011

	Reported unauthorised expenditure	Expenditure authorised in terms of section 32 of MFMA	Balance to be recovered	Restated audited outcome
Financial Performance				
Property rates				23,679,681
Service charges				95,427,270
Investment revenue				14,180,346
Transfers recognised - operational				135,823,936
Other own revenue				3,458,344
Total revenue (excluding capital transfers and contributions)				272,569,577
Employee costs	-	-	-	(81,791,173)
Remuneration of councillors	-	-	-	(8,143,684)
Debt impairment	-	-	-	(56,657,462)
Depreciation and asset impairment	-	-	-	(192,383,706)
Finance charges	-	-	-	(2,850,122)
Materials and bulk purchases	-	-	-	(30,341,173)
Transfers and grants	-	-	-	(13,384,929)
Other expenditure	-	-	-	(59,090,383)
Total expenditure	-	-	-	(444,642,632)
Surplus/(Deficit)				(172,073,055)
Transfers recognised - capital				73,266,644
Surplus (Deficit) after capital transfers and contributions				(98,806,411)
Surplus/(Deficit) for the year				(98,806,411)

Setso Local Municipality

Notes to the Annual Financial Statements for the year ended 30 June 2012

2012 2011

54. Statement of comparative and actual information (continued)

	Reported unauthorised expenditure	Expenditure authorised in terms of section 32 of MFMA	Balance to be recovered	Restated audited outcome
Capital expenditure and funds sources				
Cash flows				
Net cash from (used) operating				60,053,400
Net cash from (used) investing				(63,559,675)
Net cash from (used) financing				(6,901,717)
Net increase/(decrease) in cash and cash equivalents				(10,407,992)
Cash and cash equivalents at the beginning of the year				(16,533,400)
Cash and cash equivalents at year end				(26,941,392)

55. Contingent Liability

From confirmation received from the municipality's attorneys they indicate that the municipality has outstanding labour matters that could result in a possible contingent liability of R 240 000. This matter is carried forward from the previous financial year.

56. Changes in accounting policy

The financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice on a basis consistent with the prior year except for the adoption of the following new or revised standards.

- Accounting policy for property plant and equipment changed from revaluation model to cost model

Accounting policy for property plant and equipment changed from revaluation model to cost model

During the year, the municipality changed its accounting policy with respect to the treatment of Property Plant and equipment from the revaluation model to the cost model in order to conform with the benchmark treatment in GRAP17.

The change of the policy was necessary because Property Plant and equipment, in particular infrastructure, was unbundled in terms of GRAP 17.

The impact for the current period and also for the prior period could not be determined as the unbundled assets could not be linked to assets in the old asset register. It is also very difficult to link the single line items in the old asset register to the unbundled items in the new fixed asset register.

	Previously reported in 2011	Reported in 2012 as comparative for 2011	Impact on 2011	2012
Land and Buildings	72,909,500	73,657,842	748,342	73,657,842
Leasehold Property	15,358,668	15,358,668	-	15,358,668
Infrastructure	525,628,778	2,793,859,678	2,268,230,900	2,857,036,536
Community	5,459,350	137,132,689	131,673,339	142,951,938
Other property plant and equipment	23,326,521	17,883,663	(5,442,858)	19,991,487
Landfill sites	-	-	-	922,342
Heritage assets	-	3,616,110	3,616,110	3,616,110
Investment property	-	21,752,834	21,752,834	21,752,834
Intangible assets	-	728,393	728,393	824,047
	642,682,817	3,063,989,877	2,421,307,060	3,136,111,804

The aggregate effect of the changes in accounting policy on the financial statements for the year ended 30 June 2011 is as follows:

Setsoto Local Municipality

Notes to the Annual Financial Statements for the year ended 30 June 2012

	2012	2011
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56. Changes in accounting policy (continued)

Statement of Financial Performance

Depreciation

Previously stated	-	(18,613,645)
Current year stated	-	(192,383,706)
	-	173,770,061

57. Operating lease

The municipality have the following significant leasing arrangements:

- Canon Photocopy Rental
- ERB Marketing
- MWEB Internet and usage
- Windeed deeds office searches
- Equipment rentals - ad hoc basis
- the basis on which contingent rent payable is determined is as follow
 - Canon - contract
 - ERB Marketing - contract
 - MWEB - contract and monthly usage
 - Windeed - monthly usage
 - Equipment rentals - ad hoc basis .
- there are no existing terms of renewal or purchases options and/or any escalation clauses on these contracts;
- there are no restrictions imposed by lease arrangements, such as those concerning return of net surplus, return of capital contributions, dividends, additional debt and further leasing.

Minimum lease payments due

- within one year	1,183,764	1,183,764
- in second to fifth year inclusive	183,408	1,183,764
Present value of minimum lease payments	1,367,172	2,367,528

Present value of minimum lease payments due

- within one year	1,183,764	1,183,764
- in second to fifth year inclusive	183,408	1,183,764
	1,367,172	2,367,528

Operating leases are on photo copy machines, it services relating to internet usage and ad hoc equipment rentals.

The average lease term is 1 to 2 years and the average effective borrowing rate is 11.08-% (2011: 11.70-%).

Setsoto Local Municipality
Appendix A

Schedule of external loans as at 30 June 2011

			Loan Number	Redeemable	Balance at 30 June 2011	Received during the period	Redeemed written off during the period	Balance at 30 June 2012	Carrying Value of Property, Plant & Equip Rand	Other Costs in accordance with the MFMA Rand
					Rand	Rand	Rand	Rand		
Development Bank of South Africa										
DBSA	100	2012/06/30			1,289,181	-	1,289,181	-	-	-
DBSA	101	2012/06/30			232,310	-	232,310	-	-	-
DBSA	200	2012/06/30			780,672	-	780,672	-	-	-
DBSA	301	2020/06/30			1,996,015	-	106,289	1,889,726	1,298,901	-
DBSA	404	2012/06/30			220,202	-	220,202	-	-	-
DBSA	525	2024/12/31			6,418,382	-	216,006	6,202,376	938,425	-
DBSA	526	2011/12/31			547,963	-	547,963	-	-	-
					11,484,725	-	3,392,623	8,092,102	2,237,326	-
Lease liability										
Wesbank	529	2010/08/31			1,877	-	1,877	-	-	-
Wesbank	530	2010/08/31			1,244	-	1,244	-	-	-
Wesbank	531	2010/08/31			2,164	-	2,164	-	-	-
Wesbank	535	2012/11/30			990,533	-	675,643	314,890	333,917	-
Wesbank	536	2012/11/30			1,954,215	-	1,332,970	621,245	388,730	-
Bankfin	537	2012/04/30			584,554	-	584,554	-	-	-
Bankfin	538	2014/04/30			2,135,172	-	672,309	1,462,863	1,222,426	-
Fintech	539	2012/03/31			587,126	-	588,421	(1,295)	-	-
Fintech	540	2012/07/31			433,870	-	403,837	30,033	671,171	-
					6,690,755	-	4,263,019	2,427,736	2,616,244	-
Annuity loans										
					-	-	-	-	-	-
Total external loans										
Development Bank of South Africa					11,484,725	-	3,392,623	8,092,102	2,237,326	-
Lease liability					6,690,755	-	4,263,019	2,427,736	2,616,244	-

Setsoto Local Municipality
Appendix A

Schedule of external loans as at 30 June 2011

Loan Number	Redeemable	Balance at 30 June 2011	Received during the period	Redeemed written off during the period	Balance at 30 June 2012	Carrying Value of Property, Plant & Equip Rand	Other Costs in accordance with the MFMA Rand
		Rand	Rand	Rand	Rand		
Annuity loans		-	-	-	-	-	-
		18,175,480	-	7,655,642	10,519,838	4,853,570	-

Setsoto Local Municipality
Setsoto Local Municipality
Appendix B

Analysis of property, plant and equipment as at 30 June 2012
Cost/Revaluation

Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
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Land and buildings
 Infrastructure
 Community Assets

Setsotho Local Municipality
Setsotho Local Municipality
Appendix B

Analysis of property, plant and equipment as at 30 June 2012
Cost/Revaluation **Accumulated depreciation**

	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
Heritage assets														
Specialised vehicles														
Other assets														
Total property plant and equipment														
Intangible assets														
Computers - software & programming	728,394	95,653	-	-	-	-	824,047	(76,893)	-	-	(108,206)	-	(185,099)	638,948
	728,394	95,653	-	-	-	-	824,047	(76,893)	-	-	(108,206)	-	(185,099)	638,948
Investment properties														
Investment property	70,575,852	-	-	-	-	-	70,575,852	(5,833,257)	-	-	(1,944,419)	-	(7,777,676)	62,798,176
	70,575,852	-	-	-	-	-	70,575,852	(5,833,257)	-	-	(1,944,419)	-	(7,777,676)	62,798,176
Total														
Intangible assets	728,394	95,653	-	-	-	-	824,047	(76,893)	-	-	(108,206)	-	(185,099)	638,948
Investment properties	70,575,852	-	-	-	-	-	70,575,852	(5,833,257)	-	-	(1,944,419)	-	(7,777,676)	62,798,176
	71,304,246	95,653	-	-	-	-	71,399,899	(5,910,150)	-	-	(2,052,625)	-	(7,962,775)	63,437,124

Setsoto Local Municipality
Appendix C

Segmental analysis of property, plant and equipment as at 30 June 2010
Cost/Revaluation Accumulated Depreciation

	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment deficit Rand	Closing Balance Rand	Carrying value Rand
Municipality														
Executive & Council/Mayor and Council	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Finance & Admin/Finance	-	-	(518)	-	-	-	(518)	-	(518)	-	-	-	(518)	(1,036)
Planning and Development/Economic Development/Plan	-	-	(8,915)	-	-	-	(8,915)	-	(8,915)	-	-	-	(8,915)	(17,830)
Health/Clinics	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Comm. & Social/Libraries and archives	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Housing	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Public Safety/Police	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sport and Recreation	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Environmental Protection/Pollution Control	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Waste Water Management/Sewerage	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Road Transport/Roads	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Water/Water Distribution	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Electricity /Electricity Distribution	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other/Air Transport	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	(9,433)	-	-	-	(9,433)	-	(9,433)	-	-	-	(9,433)	(18,866)
Total	-	-	(9,433)	-	-	-	(9,433)	-	(9,433)	-	-	-	(9,433)	(18,866)

Budget Analysis of Capital Expenditure as at 30 June 2011

Municipality

Setsoto Local Municipality
Appendix F
Disclosures of Grants and Subsidies in terms of Section 123 MFMA, 56 of 2003

Name of Grants	Name of organ of state or municipal entity	Quarterly Receipts					Quarterly Expenditure					Grants and Subsidies delayed / withheld					Reason for delay/withholding of funds	Did your municipality comply with the grant conditions in terms of grant framework in the latest Division of Revenue Act	Reason for noncompliance
																		Yes/ No	
MIG Grant	National	32,020	15,304	15,639	-	62,963	35,343	19,468	45,174	80,956	80,941	-	-	-	-	-		Yes	
FMG Grant	National	1,450	-	-	-	1,450	96	120	881	352	1,450	-	-	-	-	-		Yes	
MSIG Grant	National	-	790	-	-	790	-	-	238	552	790	-	-	-	-	-		Yes	
ACIP / DWA	National	-	-	5,719	1,500	7,219	-	-	5,719	1,500	7,219	-	-	-	-	-		Yes	
POLICE, ROADS & TRANSPORT	Provincial	-	2,650	1,076	-	3,726	-	2,650	1,076	-	3,726	-	-	-	-	-		Yes	
		33,470	18,744	22,434	1,500	76,148	35,439	22,238	53,088	83,360	94,126	-	-	-	-	-			

Note: A municipality should provide additional information on how a grant was spent per Vote. This excludes allocations from the Equitable Share.

Annexure B

Report of the Auditor-General

REPORT OF THE AUDITOR-GENERAL TO THE FREE STATE PROVINCIAL LEGISLATURE AND THE COUNCIL ON SETSOTO LOCAL MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the Setsoto Local Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2012, the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2011 (Act No. 6 of 2011) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for qualified opinion

Property, plant and equipment

6. I was unable to obtain sufficient appropriate audit evidence that management had properly accounted for all items of other property, plant and equipment because items could not be traced to the fixed asset register due to lack of unique asset numbers allocated to individual assets. I was unable to trace these items to the fixed asset register by alternative means. Consequently, I was unable to determine whether any adjustment to other property, plant and equipment stated at R6 485 118 in note 11 of the financial statements was necessary.
7. The municipality did not perform any calculations to determine whether assets identified as having undergone impairment are stated at the lower of its carrying value or its recoverable amount in accordance with Standards of Generally Recognised Accounting Practice, GRAP 21, *Impairment of non-cash generating assets* and GRAP 26, *Impairment of cash generating assets*. Property, plant and equipment, heritage assets and investment property with a carrying value of R696 923 005 are included in the financial statements, but have been identified as having incurred impairment, with no estimation of their recoverable amounts. I was not able to determine the full extent of the understatement of the impairment loss and overstatement of property, plant and equipment as it was impractical to do so.
8. I was unable to obtain sufficient appropriate audit evidence that management had properly accounted for all items of infrastructure assets because 2 116 items were introduced to the fixed asset register with the final submission of the financial statements. Consequently, I was unable to determine whether any adjustment to infrastructure assets stated at R1 972 573 878 (2011:R2 086 317 950) in the financial statements was necessary.

Investment property

9. The municipality did not recognise all property held for capital appreciation or for a future undeterminable use as investment property in accordance with Standards of Generally Recognised Accounting Practice, GRAP 16, *Investment property*. Consequently, investment property is understated by R23 109 500 (2011:R23 109 500) and property plant and equipment is overstated by the same amount.

Inventory

10. The municipality did not recognise all land held for sale as inventory in accordance with Standards of Generally Recognised Accounting Practice, GRAP 12, *Inventories*. Consequently, inventory is understated by R2 311 000 (2011:R2 311 000) and property plant and equipment is overstated by the same amount.

Trade and other receivables from exchange transactions

11. I was unable to obtain sufficient appropriate audit evidence for all other trade and other receivables from exchange transactions as no supporting records could be obtained. I was unable to confirm these balances by alternative means. Consequently, I was unable to determine whether any adjustment to other trade receivables from exchange transactions, stated at R23 770 615 (2011: R19 749 473) before provision of R20 066 990 (2011: R11 262 471) in note 5 of the financial statements, was necessary. Furthermore, relevant information was not available for all indigents. Consequently, I was unable to determine whether any adjustment to trade receivables from exchange transactions, stated at R311 936 678 before provision for impairment of 245 428 444 in note 5 of the financial statements, was necessary.

12. Several debtors' accounts contain incorrect year-end balances due to incorrect readings that were not detected and corrected before year-end. Consequently, revenue and trade and other receivables from exchange transactions are understated by a projected amount of R7 759 835. Consequently, there is an impact on the deficit for the period and the accumulated surplus.

Other receivables from non-exchange transactions

13. I was unable to obtain sufficient appropriate audit evidence for certain sundry debtors as included in other receivables from non-exchange transactions as supporting records for all sundry debtors were not available. I was unable to confirm these other receivables from non-exchange transaction by alternative means. Consequently, I was unable to determine whether any adjustment to other receivables from non-exchange transactions stated at R2 385 567 in note 6 of the financial statements was necessary.

Revenue

14. I was unable to obtain sufficient appropriate audit evidence for revenue as the municipality did not ensure that correct tariffs for sewerage and refuse were used on all consumer accounts, while differences between source records and consumer accounts occurred for water and electricity consumption. In addition, interest was levied on incorrect balances. Furthermore, proper control records, internal checking and reconciliations were not done or kept for other income relating to the caravan park, the renting of halls, traffic income, connection fees, building plan fees and refuse removals. Due to this, as well as the lack of sufficient supporting documentation for revenue journals, I was unable to determine whether any adjustment to revenue stated at R402 163 352 in the financial statements was necessary.

Employee related cost

15. I was unable to obtain sufficient appropriate audit evidence for employee-related cost as supporting documentation for certain employee-related expenses and journals processed could not be obtained. I was unable to confirm the employee-related cost transactions by alternative means. Consequently, I was unable to determine whether any adjustment to employee-related cost stated at R91 547 012 in the financial statements was necessary.

Employee benefit obligation

16. The municipality did not measure its post-employment benefit obligation in accordance with South African Statement of Generally Accepted Accounting Practice, IAS 19 *Employee benefits*. In the absence of an actuarial valuation, I was unable to determine the obligation that should have been disclosed in the financial statements. Consequently, there is an impact on the deficit for the period and the accumulated surplus.

Expenses

17. During the 2010-11 audit, I was unable to obtain sufficient appropriate audit evidence regarding operating expenditure. I was unable to confirm the expenditure by alternative means. Consequently, I was unable to determine whether any adjustment to operating expenditure for the prior year stated at R47 134 617 was necessary. My audit opinion on the financial statements for the period ended 30 June 2011 was modified accordingly. My opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.

18. I was unable to obtain sufficient appropriate audit evidence for journal transactions as supporting evidence for journal transactions processed could not be submitted. I was unable to confirm the journal transactions by alternative means. Consequently, I was unable to determine whether any adjustment to expenses stated at R461 954 714 in the financial statements was necessary.

Trade and other payables from exchange transactions

19. I was unable to obtain sufficient appropriate audit evidence for payments received in advance from trade receivables disclosed as other payables from exchange transactions. These debtor accounts in credit could not be confirmed as numerous accounts contain error transactions that were not detected and corrected before year-end. I was unable to confirm these trade and other payables from exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustment to trade and other payables from exchange transactions regarding payments received in advance of R6 744 651 stated in note 15 to the financial statements was necessary.

Cash flow statement

20. The cash flow statement and the related notes are not fairly stated due to the material effect on the cash flow statement and related notes of scope limitations identified and as reported in this report. An amount of R9 181 901 (2011: R4 336 032) was incorrectly disclosed as income from investments and not as cash and cash equivalents.

Investments in municipal entity

21. The financial statements of the municipality could be misstated as the financial information of the municipal entity established by the council during the prior financial year, namely the Setsoto Integrated Dairy Project, was not consolidated and a consolidated set of financial statements was not presented for auditing, as required by section 126(1(b) of the MFMA.

Aggregation of immaterial uncorrected misstatements

22. The financial statements as a whole are materially misstated due to the cumulative effect of numerous individually immaterial uncorrected misstatements in the following elements making up the statement of financial position and the statement of financial performance:

- Service charges reflected as R101 681 034 are overstated by R666 511
- Employee-related cost reflected as R91 547 012 is understated by R344 775
- General expenses reflected as R42 354 085 are overstated by R66 405
- Cash and cash equivalents reflected as R6 791 111 are overstated by R43 062.

Qualified opinion

23. In my opinion, except for the possible effects of the matters described in the Basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the Setsoto Municipality as at 30 June 2012, its financial performance and cash flows for the year then ended, in accordance with GRAP, MFMA and DoRA.

Emphasis of matters

24. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Restatement of corresponding figures

25. As disclosed in note 52 to the financial statements, the corresponding figures for 30 June 2011 have been restated as a result of errors discovered during the current financial year in the financial statements of the Setsoto Local Municipality at, and for the year ended, 30 June 2011.

Material losses and impairments

26. As disclosed in note 5 to the financial statements, material losses of R19 106 140 (2011: R1 640 587) were incurred as a result of the write-off of irrecoverable trade debtors (debt impairment).
27. As disclosed in note 44 to the financial statements, material losses of R13 106 733 (2011: R13 798 074) and R 20 853 869 (2011: R6 368 567) were incurred as a result of the write-off of distribution losses relating to water and electricity, respectively.

Additional matters

28. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Supplementary explanations of budget variances presented outside the financial statements

29. The supplementary explanations of budget variances contained in appendix E do not form part of the financial statements. I have not audited these explanations and, accordingly, I do not express an opinion thereon.

Unaudited supplementary schedule

30. The supplementary information set out on pages 79 to 86 does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

31. In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

32. We performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages xx to xx of the annual report.
33. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual

performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned development priorities. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the *National Treasury Framework for managing programme performance information*.

34. The reliability of the information in respect of the selected development priority is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

35. The material findings are as follows:

Usefulness of information

Presentation

Measures taken to improve performance not disclosed

36. Improvement measures in the annual performance report for a total of 79% of the planned targets not achieved were not disclosed as required by section 46 of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA). This was due to inadequate internal policies and procedures in respect of the processes pertaining to the reporting of performance information.

Consistency

Reported objectives, indicators, targets not consistent with planned objectives, indicators, targets

37. Section 41(c) of the MSA requires that the integrated development plan should form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. None of the planned objectives (100%) as per the approved integrated development plan are stated in the annual performance report. A total of 77% of the reported indicators are not consistent with the indicators as per the approved integrated development plan, while a total of 85% of the reported targets are not consistent with the targets as per the approved integrated development plan. This is due to a service delivery and budget implementation plan (SDBIP) not being compiled and approved by the mayor of the municipality and a lack of monitoring of the completeness of reporting documents by management and the performance audit committee.

Reliability of information

Reported indicators and targets not supported by sufficient appropriate evidence (validity, accuracy and completeness)

38. For 78% of the reported indicators and targets of the selected infrastructure and basic services, I was unable to obtain sufficient, appropriate audit evidence to satisfy myself as to the validity, accuracy and completeness of actual performance in terms of the reported indicators and targets in the annual performance report. This is due to inadequate review processes and reporting, which is an indication of material shortcomings in the processes, systems and procedures followed in the collection, recording, processing and reporting of performance information.

Additional matter

39. I draw attention to the following matter below. This matter does not have an impact on the predetermined objectives audit findings reported above.

Achievement of planned targets

40. Of the total number of planned targets as per the approved integrated development plan, only nine were achieved during the year under review. This represents 81% of the total planned targets that were not achieved during the year under review. This was as a result of the late approval of the performance management policy framework which could not be implemented during the year under review.

Compliance with laws and regulations

41. We performed procedures to obtain evidence that the entity had complied with applicable laws and regulations regarding financial matters, financial management and other related matters. Our findings on material non-compliance with specific matters in key applicable laws and regulations, as set out in the *General Notice* issued in terms of the PAA, are as follows:

Strategic planning and performance management

42. The municipality did not ensure that the annual objectives and indicators for the municipal entity, Setsoto Integrated Dairy (Pty) Ltd, are established by agreement with the municipal entity and included in the municipal entity's multi-year business plan, as required by section 93C(a)(iv) of the MSA.
43. The performance of Setsoto Integrated Dairy (Pty) Ltd was not monitored and annually reviewed as part of the annual budget process, as required by section 93C(a)(v) of the MSA.
44. The municipality did not establish mechanisms to monitor and review its performance management system, as required by section 40 of the MSA.

Budget

45. Quarterly reports on the implementation of the budget and financial state of affairs of the municipality were not submitted to council within 30 days after the end of each quarter, as required by section 52(d) of the MFMA.

Annual financial statements, performance and annual report

46. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of non-current assets, current assets, liabilities, expenditure, revenue, notes and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected by a consulting firm appointed by the municipal manager during the course of the audit to effect extensive corrections to the financial records of the municipality and to compile a new set of financial statements for 2011-12 which was submitted on 20 March 2013. Consolidated annual financial statements were not prepared as required by section 122(2) of the MFMA.
47. The accounting officer did not make the 2010-11 annual report public immediately after the annual report was tabled in the council, as required by section 127(5)(a) of the MFMA.

Expenditure management

48. Reports regarding unauthorised, irregular or fruitless and wasteful expenditure incurred by the municipality were not submitted to the mayor, the MEC for local government and the Auditor-General, as required by section 32(4) of the MFMA.
49. Money owing by the municipality was not always paid within 30 days of receiving an invoice or statement, as required by section 65(2)(e) of the MFMA.
50. The accounting officer did not in all instances take effective steps to prevent unauthorised, irregular or fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.
51. An effective system of expenditure control, including procedures for the approval, authorisation, withdrawal and payment of funds, was not in place, as required by section 65(2)(a) of the MFMA.
52. An adequate management, accounting and information system which recognised expenditure when it was incurred, accounted for creditors of the municipality and accounted for payments made by the municipality, was not in place as required by section 65(2)(b) of the MFMA.

Revenue management

53. A credit control and debt collection policy was not implemented, as required by section 96(b) of the MSA and section 62(1)(f)(iii) of the MFMA.
54. The municipality contravened section 15(2) of the Electricity Regulatory Act, 2006 (Act No 4 of 2006) by charging electricity tariffs in excess of those approved by the National Electricity Regulator of South Africa.
55. With reference to section 64(3) of the MFMA, proof could not be obtained that the municipality had informed the National Treasury of any payments due by an organ of state to the municipality in respect of municipal tax or for municipal services where payments were regularly in arrears for periods exceeding 30 days.
56. All revenue received by the municipality was not reconciled at least on a weekly basis, as required by section 64(2)(h) of the MFMA.
57. The rates policy was not annually reviewed by council, as required by section 5(1) of the Municipal Property Rates Act, 2004 (Act No. 6 of 2004) (MPRA).
58. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained an effective management, accounting and information system which recognises revenue when it is earned, accounts for debtors and accounts for receipts of revenue, as required by section 64(2)(e) of the MFMA.
59. The municipality did not update its valuation roll for the 2011-12 financial year, as required by section 77 of the MPRA, as no interim valuations were performed.

Asset management

60. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained an adequate management, accounting and information as well as internal control system, including an asset register to account for assets, as required by section 63 (2) of the MFMA. Consultants were contracted in to update the asset register and value the assets in accordance with Standards of Generally Recognised Accounting Practice.

Procurement and contract management

61. Sufficient appropriate audit evidence could not be obtained that goods and services with a transaction value of below R200 000 were procured by obtaining the required price quotations, as required by Supply Chain Management (SCM) regulations 17(a) and (c).
62. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM Regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, which is in contravention of SCM regulation 36(1).
63. Sufficient appropriate audit evidence could not be obtained that bid specifications for procurement of goods and services through competitive bids were drafted in an unbiased manner which allowed all potential suppliers to offer their goods or services, as required by SCM regulation 27(2)(a).
64. Sufficient appropriate audit evidence could not be obtained that bid specifications were drafted by bid specification committees which were composed of one or more officials of the municipality, as required by SCM regulation 27(3).
65. Sufficient appropriate audit evidence could not be obtained that invitations for competitive bidding were advertised for the required minimum period of days, as required by SCM regulation 22(1) and 22(2).
66. Awards were made to bidders other than those recommended by the bid evaluation committee without ratification by the accounting officer, as required by SCM regulation 29(5)(a)(ii) and (b)(ii).
67. Contracts were awarded to bidders based on preference points that were not calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000) and its regulations.
68. A list of accredited prospective providers was not in place for procuring goods and services through quotations, as required by SCM regulation 14(1)(a).
69. The prospective providers list for procuring goods and services through quotations was not updated at least quarterly to include new suppliers that qualify for listing, and prospective providers were not invited to apply for such listing at least once a year as per the requirements of SCM regulation 14(1)(a)(ii) and 14(2).
70. Persons in service of the municipality who had a private or business interest in contracts awarded by the municipality failed to disclose such interest, as required by SCM regulation 46(2)(e).
71. The accounting officer did not ensure that the SCM policy was reviewed for the 2011-12 financial year, as required by SCM regulation 3(1) and paragraph 3(1)(a) of the Setsoto Local Municipality's SCM policy.

72. All the councillors did not submit their declaration of interest to the municipality, as required by the code of conduct for councillors in terms of the MSA.

Financial misconduct

73. Sufficient appropriate audit evidence could not be obtained that investigations were instituted into all allegations of financial misconduct against officials of the municipality, as required by section 171(4)(a) of the MFMA due to the fact that, at the time of the audit, not all unauthorised, irregular or fruitless and wasteful expenditure incurred by the municipality was investigated.

Human resource management and compensation

74. The municipal manager and managers directly accountable to the municipal manager did not sign performance agreements, as required by section 57(2)(a) of the MSA.
75. The municipality did not submit a report on compliance with prescribed competency levels to the National Treasury and relevant provincial treasury, as required by regulation 14(2)(a) of the *Regulations on minimum competency levels*.
76. The annual report of the municipality did not reflect information on compliance with prescribed minimum competencies, as required by regulation 14(2)(b) of the *Regulations on minimum competency levels*.
77. The municipality did not establish a performance management system, as required by section 67(d) of the MSA.

Environmental management

78. The municipality operated one waste disposal site without a waste management licence or permit, in contravention of section 20(b) of the National Environmental Management: Waste Act, 2008 (Act No. 59 of 2008) and section 20(1) of the Environmental Conservation Act, 1989 (Act No. 73 of 1989).

Internal control

79. We considered internal control relevant to our audit of the financial statements, the annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the basis for the qualified opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

80. During the financial year under review, management failed to heed and implement all comments and recommendations made by the auditors in the previous financial year due to the fact that the action plan was not fully implemented.
81. During the financial year under review, leadership did not hold staff of the municipality accountable due to the performance management system not being implemented.
82. During the financial year under review, leadership did not take timeous and adequate action to address weaknesses in the finance and SCM directorates which resulted in non-compliance with applicable legislation and gave rise to unauthorised, irregular or fruitless and wasteful expenditure.

Financial and performance management

83. During the financial year under review, the staff members of the municipality were not sufficiently skilled to ensure that daily financial activities were fully and correctly recorded in the records of the municipality. Management also did not ensure that all transactions and records were internally checked to detect possible fraudulent activities and to correct all errors in the financial records. Furthermore, evidence could not be submitted that monthly bank reconciliations were performed and reviewed by management.
84. During the financial year under review, revenue received was not reviewed and reconciled on a weekly basis. In the absence of proper review of bank reconciliations, differences between receipts and bank deposits were not detected and corrected by management. Unidentified direct bank deposits were also not cleared on a regular basis during the financial year.
85. As a result of inadequate of internal review of transactions, incorrect tariffs for sewerage and refuse as well as differences between source records and water and electricity debtor accounts were not detected and corrected by management.
86. The financial statements submitted for auditing were not supported by a complete audit file. The financial statements and the audit file were not properly reviewed for completeness and accuracy prior to the submission thereof for auditing.
87. The general ledger accounts and the financial statements were subjected to material corrections resulting from the audit process, which are attributable to shortcomings in the design and implementation of internal control in respect of financial reporting as well as shortcomings in the information system of the municipality.
88. During the year under review, the accounting officer did not regularly review and monitor management's compliance with all laws and regulations and internally designed policies and procedures. As a result, significant non-compliance issues were noted that could have been prevented.

Auditor-General

Bloemfontein

30 April 2013



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure C

Report of the Audit and Performance Audit Committee

SETSOTO LOCAL MUNICIPALITY

DRAFT REPORT OF THE AUDIT COMMITTEE FOR THE YEAR ENDED 30 JUNE 2012

We are pleased to present our draft report for the financial year ended 30 June 2012.

Audit Committee Members and Attendance:

The Audit Committee consisted of the members listed hereunder. During the current year, four (4) meetings were held.

Name of Member	Number of Meetings Attended
Mr. MP Tshake (Chairperson)	4
Mr. KT Makhale	2
Mr. LW Tau	4
Mr. DS Moletsane	3

All four (4) members of the Audit Committee are independent, with no interest in the management or conduct of the business of the Municipality.

The Free State Provincial Treasury and the Auditor-General South Africa is invited to all meetings of the Audit Committee as per the provisions of the Audit Committee Charter.

Audit Committee Responsibility

The Audit Committee is pleased to report that it is properly constituted as required by section 166(2) of the MFMA and it has adopted appropriate formal terms of reference as its audit committee charter and has regulated its affairs in compliance with this charter.

The Audit Committee also report that it has adequately discharged all its responsibilities arising from section 166(2) of the MFMA.

The Effectiveness of Internal Control and Risk Management

The system of internal controls applied by the municipality was not entirely effective for the year under review. During the year under review, several deficiencies in the system of internal controls, deviations and non compliance to the relevant legislative prescripts were reported by the Internal Auditors. In addition to the above, in certain instances the matters reported previously have not been fully and satisfactorily addressed.

Although risk assessment was performed by the external service provider, the municipality did not implement risk management strategies to manage risks facing the municipality.

The quality of in year management and monthly / quarterly reports submitted in terms of the MFMA and the Division of Revenue Act

The Audit Committee is unable to comment on the contents and quality of monthly and quarterly reports prepared and issued by the Accounting Officer and the Municipality as it has not been presented with such reports to review.

The Committee is however, informed that the in-year management reports were duly prepared and submitted to the Provincial Treasury and relevant Authorities.

Evaluation of Annual Financial Statements and Annual Report

The Audit Committee has reviewed and discussed the an-audited annual financial statements for the year ended 30 June 2012 prior to submission to Auditor-General South Africa.

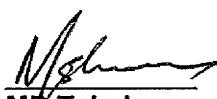
The Audit Committee had not been able to review the draft annual report at the time of the meeting, but however discussed progress on the drafting of the annual report and the municipality's ability to submit such report by the statutory deadline. The Committee was provided with assurance by management that deadlines will be met.

Internal Audit Activity

The Internal Audit Activity under the direction of the Chief Audit Executive operated in accordance with the Internal Audit Charter and Internal Audit Plan during the year under review. During the period under review numerous internal audit assignments were undertaken and the results were presented to the Committee.

Conclusion

The Audit Committee recommends the corrections on the un-audited annual financial statements before approval by the Accounting Officer. After all corrections have been effected, the Committee recommends that an-audited annual financial statements be submitted to the Auditor-General South Africa for auditing before 31 August 2012.



MP Tshake

Chairperson of the Audit Committee

Date: 31/08/2012